

Nevada Prepaid Tuition Program

Fiscal Year 2004 Annual Report



Brian K. Krolicki
State Treasurer

Brian K. Krolicki
State Treasurer



John E. Adkins
Chief Deputy Treasurer

Kathryn A. Besser
Chief of Staff

STATE OF NEVADA
OFFICE OF THE STATE TREASURER

March 31, 2005

The Honorable Kenny C. Guinn
Governor of the State of Nevada
Capitol Building
Carson City, Nevada 89701

Dear Governor Guinn:

In accordance with Nevada Revised Statute 353B.170, I respectfully submit the Fiscal Year 2004 Nevada Prepaid Tuition Program Annual Report on behalf of the Board of Trustees of the College Savings Plans of Nevada.

The sixth annual enrollment period, which was open from August 27, 2003 until December 31, 2003, enrolled an additional 468 children in the program. This brought the total number of enrollees in the Program to 9,878 as of June 30, 2004 with over \$63 million invested on their behalf. The primary factor contributing to the significant decline in enrollees over previous enrollment periods was the reduction of marketing funds authorized by the Legislature. As a reminder, the monies used to support the Program are derived from the Program's Trust Fund, not the general fund.

The Nevada Prepaid Tuition Program continued to contract with GIF Services for investment management services during FY 04. The contract with GIF Services insures professional investment management services for the Higher Education Tuition Trust Fund. The investment returns exceeded the Standard & Poor's 500 benchmark by 1,111 basis points, with overall earnings increasing over 13% for FY 04.

The Board works closely with GIF Services to analyze and support the fiscal strength of the Nevada Higher Education Trust Fund. The Board has directed the investment of the assets be divided equally between fixed income and equities. GIF Services recommended diversifying the equity side to include 57% in Large Cap Equities, 21% in Mid Cap Equities and 22% in Small Cap Equities. This allocation has improved the overall portfolio performance by over \$15 million above FY 03 returns.

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STATE TREASURER PROGRAMS
Millennium Scholarship Program
Nevada Prepaid Tuition Program
Unclaimed Property
Upromise College Fund 529 Plan

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Milliman USA continues to serve as the Program's Actuary and Kafoury Armstrong continues to serve as the Independent Auditor for the Program which received a clean audit for FY 04 with no exceptions noted. The FY 04 Actuarial Valuation shows that the program has sufficient assets to cover the actuarially estimated cost of all the tuition obligations under the contracts outstanding. The actuaries project a \$12.6 million surplus in the year 2025 when all obligations are paid in full. The FY 04 annual actuarial valuation report and the annual audit are both included in this Annual Report.

The Nevada Prepaid Tuition Program expects to address several new challenges during Fiscal Year 2004:

- Exploring ways to increase exposure of the Program to new participants with the significantly reduced marketing funds authorized by the Legislature.
- Pay tuition on behalf of 431 beneficiaries matriculating to college in FY 05.
- Examine alternatives and implement new policies related to early withdrawal of funds and reallocation of the equity and fixed income portfolios of the Trust Fund.
- Continue to adapt to the changing marketplace of college savings programs.
- Continue to work with Congress on federal issues including the sunset of the tax exemption for earnings on 529 accounts in 2010 and parity with college savings plans for the treatment of prepaid tuition plans in the determination of a student's eligibility for Federal student aid.

Please contact me if you have any questions about the Fiscal Year 2004 Annual Report or would like additional information. Thank you for your continued support of the Nevada Prepaid Tuition Program.

Best regards,



Brian K. Krolicki
State Treasurer

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PROGRAM STATISTICS SUMMARY

Attached are tables of demographic information collected from the enrollment forms submitted by purchasers who enrolled children in the Program. This is optional information submitted by purchasers on a strictly voluntary basis. The information collected is presented by enrollment year and on a cumulative basis. Statistics are collected for the following data elements:

Choice of Plans and Payment Options
Contracts by County
Beneficiary's Age and Grade
Race of Beneficiary
Beneficiary's Relationship to Purchaser
Purchaser Education Level
Purchaser Income Range
Referral Source- How the Purchaser First Learned of the Program
Liability by Projected Enrollment Year

After six years of collecting this information, the following trends have emerged:

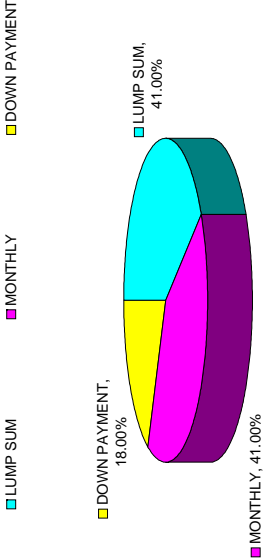
- The four-year university plan remains the most popular, with 81.2% choosing this plan option during Fiscal Year 2004.
- The lump sum payment option has grown in popularity from 35.8% in FY 03 to 41% in FY 04. The five-year and extended monthly installment plans were chosen by the remaining 59%.
- Residents of Clark County purchased 45.51% of the contracts and residents of Washoe County purchased 37.18% of the contracts in FY 04.
- More parents are saving early for college expenses. In FY 2004, newborns accounted for 29.27% of the beneficiaries, compared to only 14.48% of the cumulative total since 1998. The average age of the beneficiary is still six years old.
- Fifty-six percent (56.62%) of the beneficiaries are caucasian for contracts sold in FY 04. The next largest groups of beneficiaries are asian and hispanic, accounting for approximately 8% and 6% respectively of the FY 04 contracts sold. African-Americans account for 1.71% and native americans account for 0.21% of the beneficiaries.

- Parents purchase the largest percentage of contracts (78.21%) for their children, followed by grandparents (11.75%).
- Purchasers holding a bachelor's degree increased from 23.38% last year to 27.14% this year. The number of purchasers holding either a high school diploma or GED was 13.46%, while the number of participants holding a master's degree or Ph.D was 14.74%.
- Purchasers with annual household incomes under \$49,000 represented 9.83% of the purchasers. Purchasers with annual household incomes ranging from \$50,000 to \$79,000 represented 15.6% of the purchasers.
- The referral source has changed since the inception of the Program. During the first three enrollment periods, approximately 40% of purchasers stated they learned about the Program through television and radio advertising. In FY 04 10.47% learned about the Program through word of mouth and 6.2% through the State Treasurer's website.

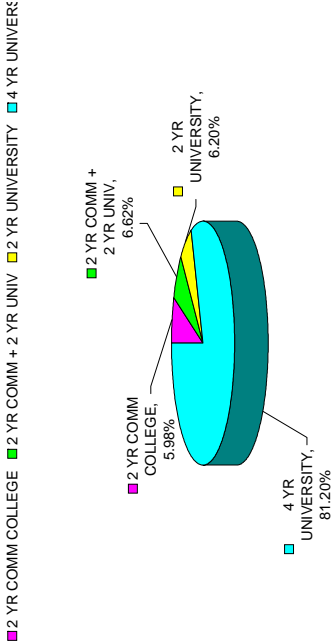
CHOICE OF PLANS AND PAYMENT OPTIONS

PAYMENT OPTION	2 YEAR COMMUNITY COLLEGE PLAN							2 YEAR COMMUNITY COLLEGE + 2 YR UNIVERSITY PLAN							SUMMARY OF PAYMENT OPTIONS							
	FY99	FY00	FY01	FY02	FY03	FY04	COMBINED	FY99	FY00	FY01	FY02	FY03	FY04	COMBINED	PAYMENT OPTION	FY99	FY00	FY01	FY02	FY03	FY04	COMBINED
LUMP SUM	9	21	14	10	4	7	65	52	61	41	17	12	9	192								
DOWN PAYMENT	-	-	4	3	2	4	13	-	-	27	17	8	7	59	LUMP SUM	24.50%	26.20%	21.70%	33.50%	35.80%	41.00%	26.67%
EXTENDED MONTHLY	95	100	-	-	-	-	195	192	172	-	-	-	-	364	MONTHLY DOWN PAYMENT	75.50%	73.80%	65.30%	50.50%	19.40%	41.00%	73.33%
5 YR MONTHLY	51	34	-	-	-	-	85	96	105	-	-	-	-	201		0.00%	0.00%	13.00%	16.00%	44.80%	18.00%	
MONTHLY	-	-	103	20	9	17	149	-	-	199	58	25	15	297								
TOTAL	155	155	121	33	15	28	507	340	338	267	92	45	31	1,113								
PAYMENT OPTION	2 YEAR UNIVERSITY PLAN							4 YEAR UNIVERSITY PLAN							SUMMARY OF PLAN OPTIONS							
	FY99	FY00	FY01	FY02	FY03	FY04	COMBINED	FY99	FY00	FY01	FY02	FY03	FY04	COMBINED	PLAN OPTION	FY99	FY00	FY01	FY02	FY03	FY04	COMBINED
LUMP SUM	-	-	19	17	10	13	59	647	667	485	368	173	163	2,503								
DOWN PAYMENT	-	-	17	5	4	4	30	-	-	287	171	94	69	621	2 YR COMM COLLEGE	5.40%	5.40%	4.70%	2.70%	2.70%	5.98%	4.80%
EXTENDED MONTHLY	-	-	-	-	-	-	-	937	888	-	-	-	-	1,825	2 YR COMM + 2 YR UNIV	11.80%	11.90%	10.30%	7.50%	8.10%	6.62%	10.53%
5 YR MONTHLY	-	-	-	-	-	-	-	804	802	-	-	-	-	1,606	2 YR UNIVERSITY	0.00%	0.00%	6.70%	85.20%	5.30%	6.20%	2.72%
MONTHLY	-	-	136	35	15	12	198	-	-	1,250	508	200	148	2,106	4 YR UNIVERSITY	82.80%	82.70%	78.30%	4.60%	83.90%	81.20%	81.95%
TOTAL	-	-	172	57	29	29	287	2,388	2,357	2,022	1,047	467	380	8,661								

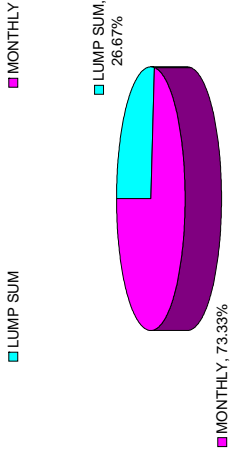
FY 04 PAYMENT OPTION



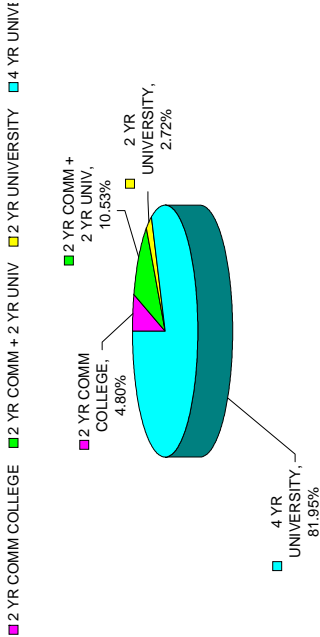
FY 04 PLAN OPTION



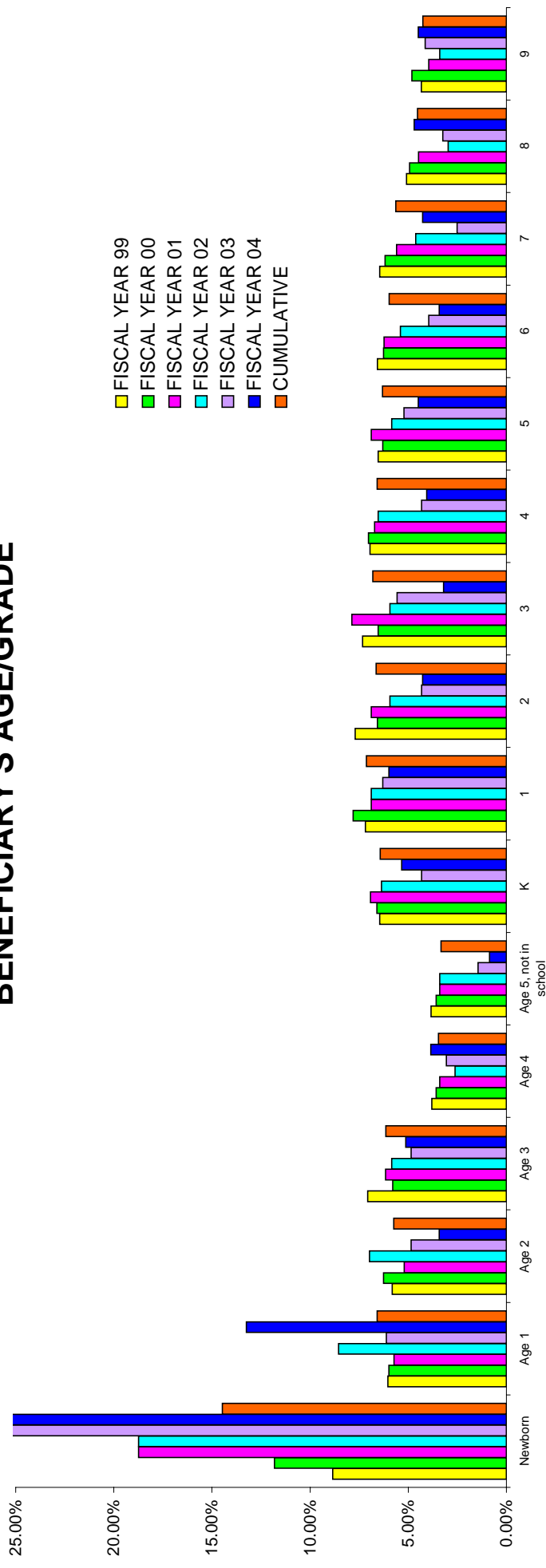
CUMULATIVE PAYMENT OPTION



CUMULATIVE PLAN OPTION

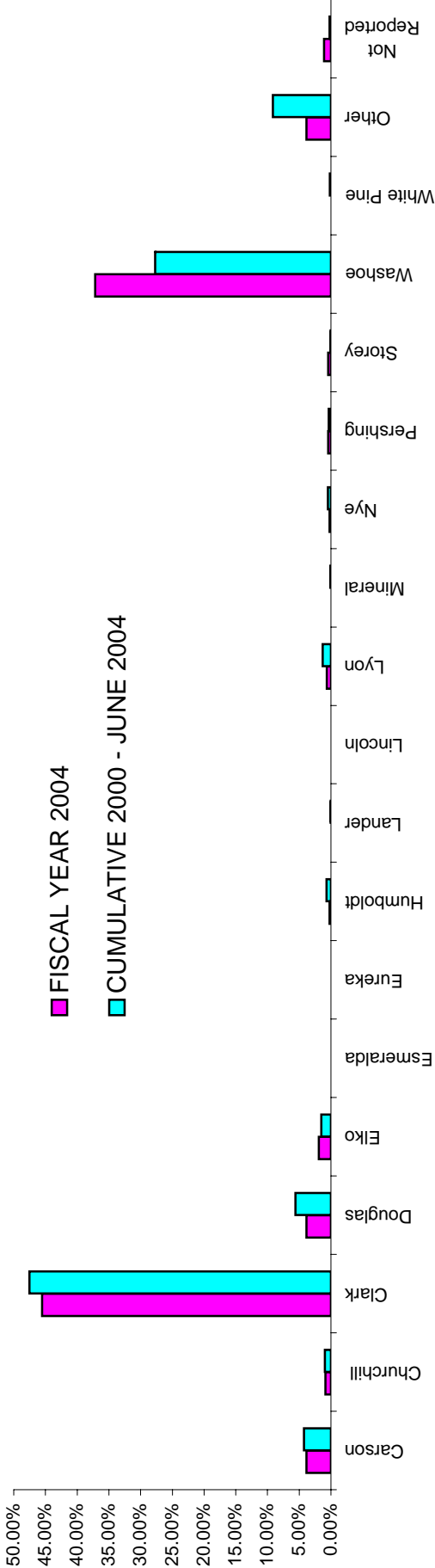


BENEFICIARY'S AGE/GRADE



	FISCAL YEAR 99 COUNT	FISCAL YEAR 99 %	FISCAL YEAR 00 COUNT	FISCAL YEAR 00 %	FISCAL YEAR 01 COUNT	FISCAL YEAR 01 %	FISCAL YEAR 02 COUNT	FISCAL YEAR 02 %	FISCAL YEAR 03 COUNT	FISCAL YEAR 03 %	FISCAL YEAR 04 COUNT	FISCAL YEAR 04 %	CUMULATIVE COUNT	CUMULATIVE %
Newborn	233	8.85%	304	11.81%	342	18.74%	215	18.74%	199	35.79%	137	29.27%	1430	14.48%
Age 1	159	6.04%	154	5.98%	143	5.72%	98	8.54%	34	6.12%	62	13.25%	650	6.58%
Age 2	153	5.81%	161	6.25%	130	5.20%	80	6.97%	27	4.86%	16	3.42%	567	5.74%
Age 3	186	7.06%	149	5.79%	154	6.16%	67	5.84%	27	4.86%	24	5.13%	607	6.14%
Age 4	100	3.80%	92	3.57%	85	3.40%	30	2.62%	17	3.06%	18	3.85%	342	3.46%
Age 5, not in school	101	3.84%	92	3.57%	85	3.40%	39	3.40%	8	1.44%	4	0.85%	329	3.33%
K	170	6.46%	170	6.60%	173	6.92%	73	6.36%	24	4.32%	25	5.34%	635	6.43%
1	189	7.18%	201	7.81%	172	6.88%	79	6.89%	35	6.29%	28	5.98%	704	7.13%
2	203	7.71%	189	6.57%	172	6.88%	68	5.93%	24	4.32%	20	4.27%	656	6.64%
3	193	7.33%	168	6.53%	197	7.88%	68	5.93%	31	5.58%	15	3.21%	672	6.80%
4	183	6.95%	181	7.03%	168	6.72%	75	6.54%	24	4.32%	19	4.06%	650	6.58%
5	172	6.53%	162	6.29%	172	6.88%	67	5.84%	29	5.22%	21	4.49%	623	6.31%
6	173	6.57%	161	6.25%	156	6.24%	62	5.41%	22	3.96%	16	3.42%	590	5.97%
7	170	6.46%	159	6.18%	140	5.60%	53	4.62%	14	2.52%	20	4.27%	556	5.63%
8	134	5.09%	127	4.93%	112	4.48%	34	2.96%	18	3.24%	22	4.70%	447	4.53%
9	114	4.33%	124	4.82%	99	3.98%	39	3.40%	23	4.14%	21	4.49%	420	4.25%
Total	2633	100.00%	2574	100.00%	2500	100.00%	1147	100.00%	556	100.00%	488	100.00%	9878	100.00%

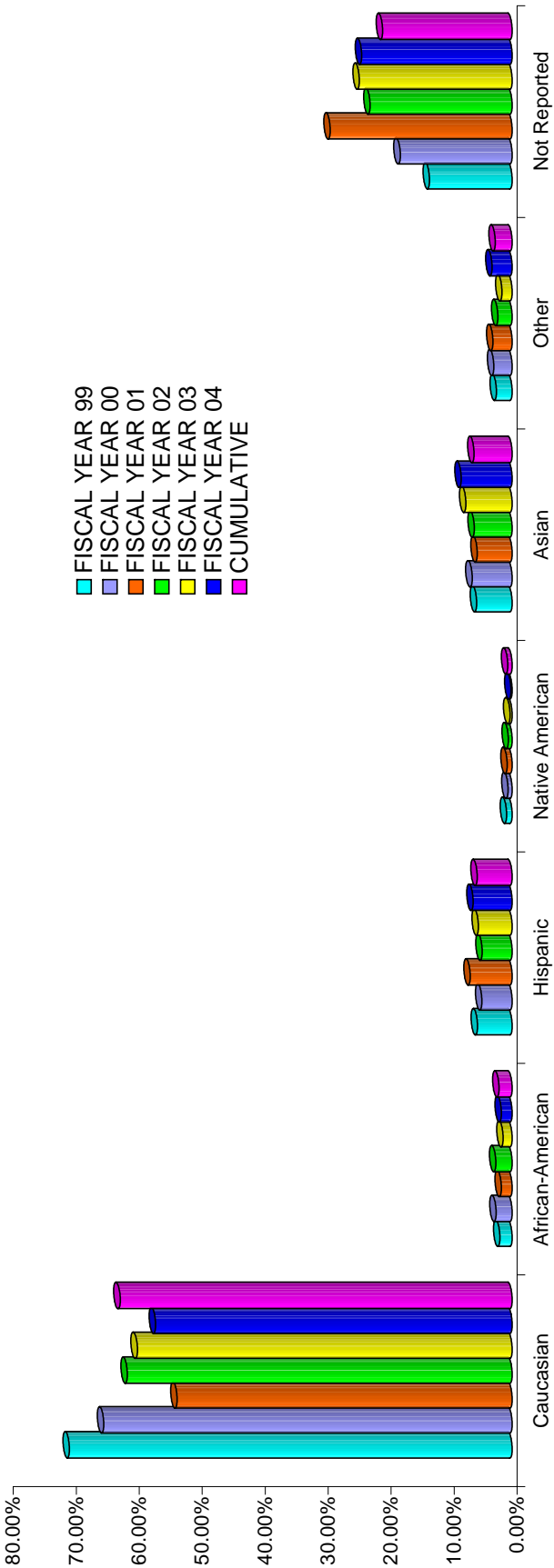
CONTRACTS BY COUNTY



FISCAL YEAR 2004			CUMULATIVE 2000 - JUNE 2004		
COUNTY	COUNT	%	COUNTY	COUNT	%
Carson	18	3.85%	Carson	280	4.23%
Churchill	4	0.85%	Churchill	62	0.94%
Clark	213	45.51%	Clark	3147	47.53%
Douglas	18	3.85%	Douglas	370	5.59%
Elko	9	1.92%	Elko	100	1.51%
Esmeralda	0	0.00%	Esmeralda	0	0.00%
Eureka	0	0.00%	Eureka	0	0.00%
Humboldt	1	0.21%	Humboldt	46	0.69%
Lander	0	0.00%	Lander	3	0.05%
Lincoln	0	0.00%	Lincoln	0	0.00%
Lyon	3	0.64%	Lyon	85	1.28%
Mineral	0	0.00%	Mineral	6	0.09%
Nye	1	0.21%	Nye	31	0.47%
Pershing	2	0.43%	Pershing	23	0.35%
Storey	2	0.43%	Storey	2	0.03%
Washoe	174	37.18%	Washoe	1835	27.71%
White Pine	0	0.00%	White Pine	11	0.17%
Other	18	3.85%	Other	605	9.14%
Not Reported	5	1.07%	Not Reported	15	0.23%
Total	468	100.00%	Total	6621	100.00%

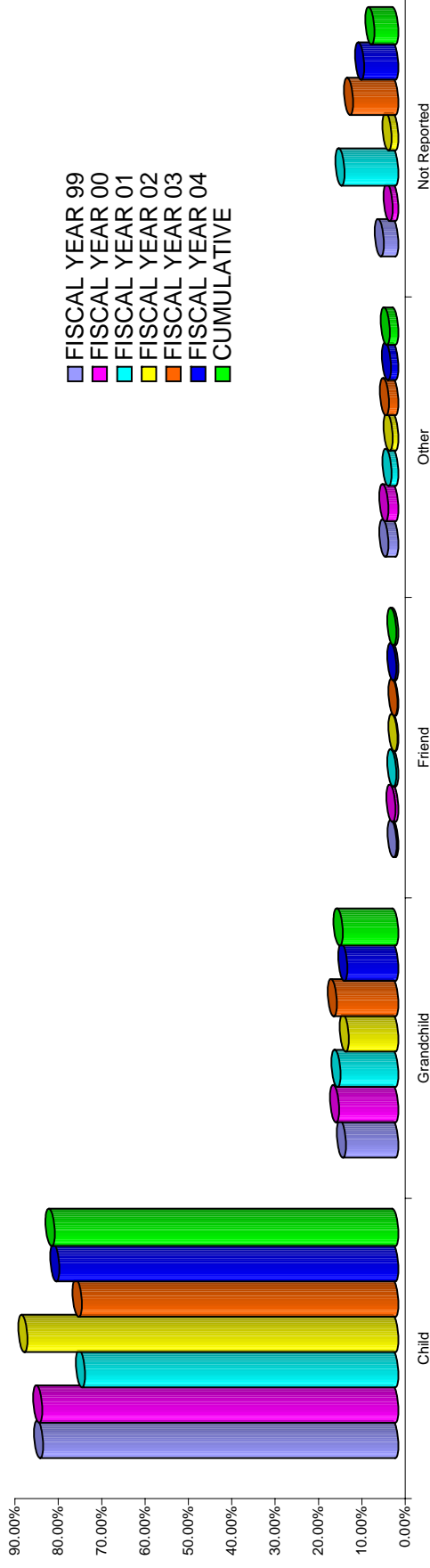
Note: Program did not track this data in 1998 & 1999

RACE OF BENEFICIARY



	FISCAL YEAR 99		FISCAL YEAR 00		FISCAL YEAR 01		FISCAL YEAR 02		FISCAL YEAR 03		FISCAL YEAR 04		CUMULATIVE	
	COUNT	%	COUNT	%	COUNT	%	COUNT	%	COUNT	%	COUNT	%	COUNT	%
Caucasian	1852	70.34%	1670	64.88%	1331	53.24%	701	61.12%	331	59.53%	265	56.62%	6150	62.26%
African-American	52	1.97%	66	2.56%	43	1.72%	30	2.62%	8	1.44%	8	1.71%	207	2.10%
Hispanic	145	5.51%	124	4.82%	167	6.68%	55	4.80%	30	5.40%	29	6.20%	550	5.57%
Native American	23	0.87%	17	0.66%	20	0.80%	7	0.61%	2	0.36%	1	0.21%	70	0.71%
Asian	149	5.66%	164	6.37%	139	5.56%	69	6.02%	41	7.37%	38	8.12%	600	6.07%
Other	66	2.51%	75	2.91%	77	3.08%	26	2.27%	9	1.62%	15	3.21%	268	2.71%
Not Reported	346	13.14%	458	17.79%	723	28.92%	259	22.58%	135	24.28%	112	23.93%	2033	20.58%
Total	2633	100.00%	2574	100.00%	2500	100.00%	1147	100.00%	556	100.00%	468	100.00%	9878	100.00%

BENEFICIARY'S RELATIONSHIP TO PURCHASER



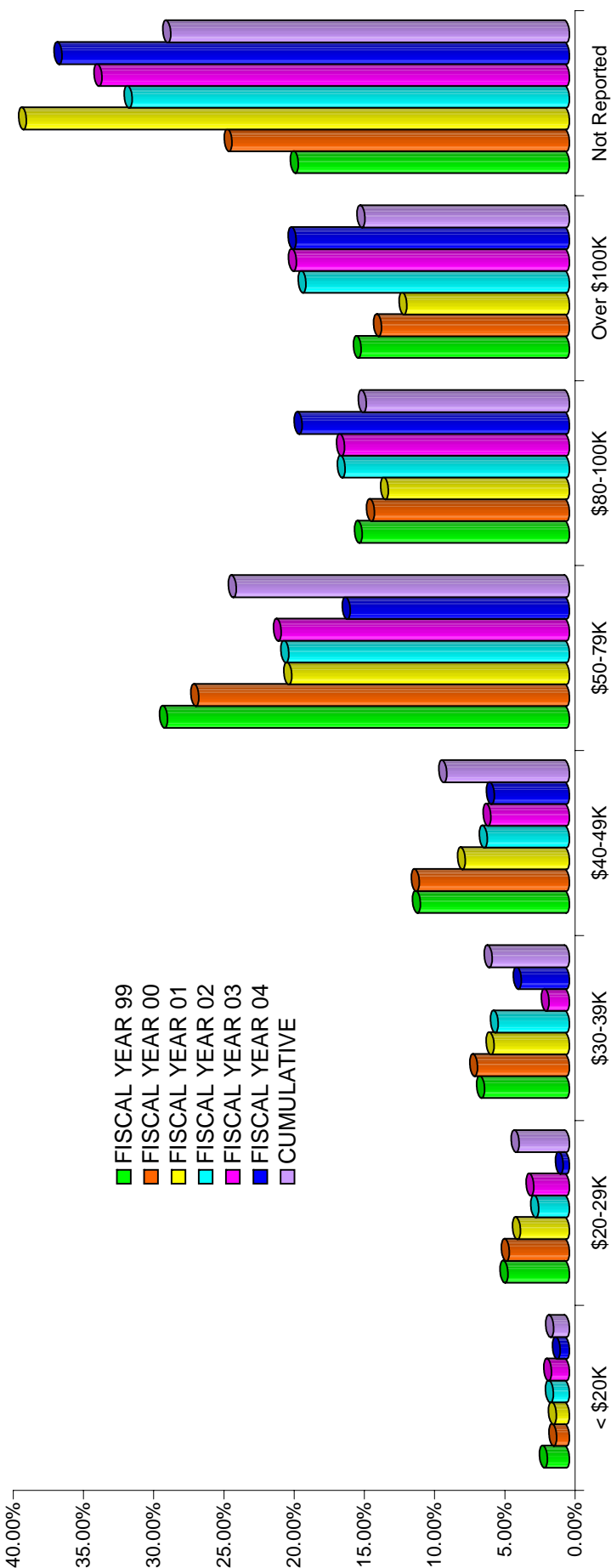
	FISCAL YEAR 99	FISCAL YEAR 00	FISCAL YEAR 01	FISCAL YEAR 02	FISCAL YEAR 03	FISCAL YEAR 04	CUMULATIVE
Child	COUNT 2157	COUNT 2114	COUNT 1806	COUNT 981	COUNT 406	COUNT 366	COUNT 7830
Grandchild	% 12.08%	% 13.68%	% 13.32%	% 11.42%	% 14.21%	% 11.75%	% 12.84%
Friend	% 0.38%	% 0.62%	% 0.48%	% 0.17%	% 0.18%	% 0.43%	% 0.44%
Other	% 2.28%	% 2.29%	% 1.56%	% 1.31%	% 2.16%	% 1.71%	% 1.95%
Not Reported	% 3.34%	% 1.28%	% 12.40%	% 1.57%	% 10.43%	% 7.91%	% 5.51%
Total	COUNT 2633	COUNT 2574	COUNT 2500	COUNT 1147	COUNT 556	COUNT 468	COUNT 9878
	% 100.00%	% 100.00%	% 100.00%	% 100.00%	% 100.00%	% 100.00%	% 100.00%

PURCHASER EDUCATION LEVEL



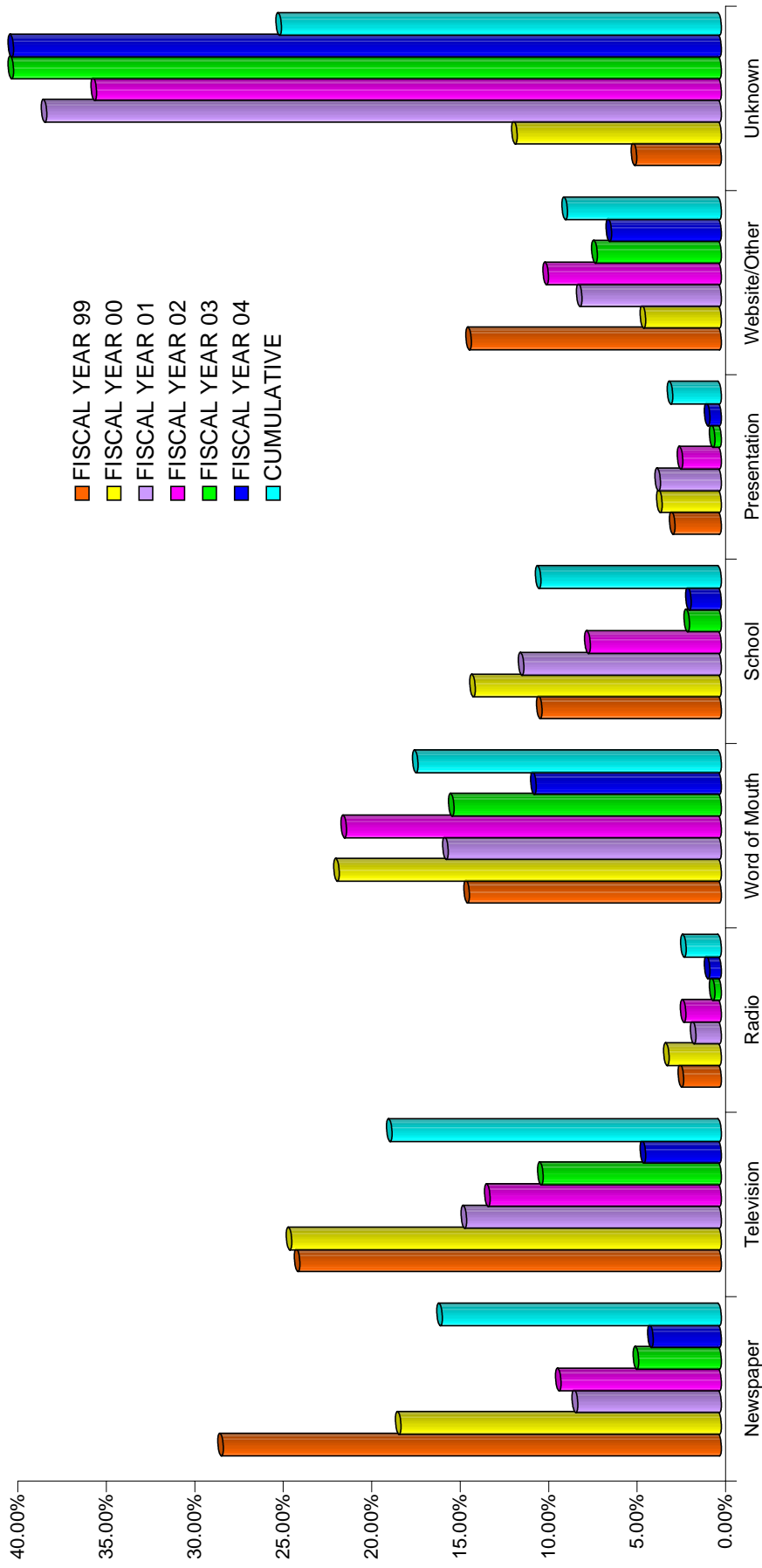
	FISCAL YEAR 99	FISCAL YEAR 00	FISCAL YEAR 01	FISCAL YEAR 02	FISCAL YEAR 03	FISCAL YEAR 04	CUMULATIVE
H.S. Diploma	COUNT 602	COUNT 656	COUNT 463	COUNT 198	COUNT 96	COUNT 61	COUNT 2076
GED	% 22.86%	% 25.49%	% 18.52%	% 17.26%	% 17.27%	% 13.03%	% 21.02%
AA Degree	COUNT 45	COUNT 48	COUNT 52	COUNT 15	COUNT 3	COUNT 2	COUNT 165
Bachelor's Degree	% 1.71%	% 1.86%	% 2.08%	% 1.31%	% 0.54%	% 0.43%	% 1.67%
Master's Degree	COUNT 327	COUNT 308	COUNT 268	COUNT 131	COUNT 51	COUNT 52	COUNT 1137
Ph.D	% 12.42%	% 11.97%	% 10.72%	% 11.42%	% 9.17%	% 11.11%	% 11.51%
Other	COUNT 756	COUNT 685	COUNT 516	COUNT 317	COUNT 130	COUNT 127	COUNT 2531
Not Reported	% 28.71%	% 26.61%	% 20.64%	% 27.64%	% 23.38%	% 27.14%	% 25.62%
Total	COUNT 389	COUNT 230	COUNT 205	COUNT 126	COUNT 80	COUNT 58	COUNT 1088
	% 14.77%	% 8.94%	% 8.20%	% 10.99%	% 14.39%	% 12.39%	% 11.01%
	COUNT 62	COUNT 27	COUNT 29	COUNT 13	COUNT 13	COUNT 11	COUNT 155
	% 2.35%	% 1.05%	% 1.16%	% 1.13%	% 2.34%	% 2.35%	% 1.57%
	COUNT 169	COUNT 193	COUNT 171	COUNT 84	COUNT 33	COUNT 30	COUNT 680
	% 6.42%	% 7.50%	% 6.84%	% 7.32%	% 5.94%	% 6.41%	% 6.88%
	COUNT 283	COUNT 427	COUNT 796	COUNT 263	COUNT 150	COUNT 127	COUNT 2046
	% 10.75%	% 16.59%	% 31.84%	% 22.93%	% 26.98%	% 27.14%	% 20.71%
	COUNT 2633	COUNT 2574	COUNT 2500	COUNT 1147	COUNT 556	COUNT 468	COUNT 9878
	% 100.00%	% 100.00%	% 100.00%	% 100.00%	% 100.00%	% 100.00%	% 100.00%

PURCHASER INCOME RANGE



	FISCAL YEAR 99		FISCAL YEAR 00		FISCAL YEAR 01		FISCAL YEAR 02		FISCAL YEAR 03		FISCAL YEAR 04		CUMULATIVE	
	COUNT	%	COUNT	%	COUNT	%	COUNT	%	COUNT	%	COUNT	%	COUNT	%
< \$20K	41	1.56%	23	0.89%	23	0.92%	13	1.13%	7	1.26%	3	0.64%	110	1.11%
\$20-29K	115	4.37%	110	4.27%	87	3.48%	25	2.18%	14	2.52%	2	0.43%	353	3.57%
\$30-39K	159	6.04%	168	6.53%	134	5.36%	58	5.06%	8	1.44%	16	3.42%	543	5.50%
\$40-49K	279	10.60%	275	10.68%	185	7.40%	67	5.84%	31	5.58%	25	5.34%	862	8.73%
\$50-79K	753	28.60%	679	26.38%	494	19.76%	229	19.97%	114	20.50%	73	15.60%	2342	23.71%
\$80-100K	388	14.74%	357	13.87%	322	12.88%	183	15.95%	89	16.01%	89	19.02%	1428	14.46%
Over \$100K	390	14.81%	344	13.36%	289	11.56%	215	18.74%	108	19.42%	91	19.44%	1437	14.55%
Not Reported	508	19.29%	618	24.01%	966	38.64%	357	31.12%	185	33.27%	169	36.11%	2803	28.38%
Total	2633	100.00%	2574	100.00%	2500	100.00%	1147	100.00%	556	100.00%	468	100.00%	9878	100.00%

REFERRAL SOURCE



	FISCAL YEAR 99	FISCAL YEAR 00	FISCAL YEAR 01	FISCAL YEAR 02	FISCAL YEAR 03	FISCAL YEAR 04	CUMULATIVE
COUNT	741	466	203	104	26	18	1558
Newspaper	28.14%	18.10%	8.12%	9.07%	4.68%	3.85%	15.77%
Television	23.81%	24.28%	14.40%	13.08%	10.07%	4.27%	18.61%
Radio	2.13%	2.95%	1.44%	2.01%	0.36%	0.64%	1.98%
Word of Mouth	14.24%	21.60%	15.44%	21.19%	15.11%	10.47%	17.14%
School	10.14%	13.91%	11.16%	7.41%	1.80%	1.71%	10.19%
Presentation	2.62%	3.34%	3.44%	2.18%	0.36%	0.64%	2.74%
Website/Other	14.13%	4.27%	7.88%	9.76%	7.01%	6.20%	8.70%
Unknown	4.79%	11.54%	38.12%	35.31%	60.61%	72.22%	24.86%
Total	2633	2574	2500	1147	556	468	9878
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Nevada Prepaid Tuition Program
Liability by Projected Enrollment
as of June 30, 2004

2002	90	.988%
2003	210	2.306%
2004	350	3.844%
2005	434	4.766%
2006	490	5.381%
2007	549	6.029%
2008	575	6.315%
2009	596	6.545%
2010	620	6.809%
2011	587	6.446%
2012	616	6.765%
2013	603	6.622%
2014	552	6.062%
2015	545	5.985%
2016	593	6.512%
2017	537	5.897%
2018	507	5.568%
2019	362	3.975%
2020	154	1.691%
2021	136	1.494%
9,106		100.000%

Note: This chart only includes active accounts as of 6/30/04.

FINANCIAL OBJECTIVES AND STRATEGIES

NRS 353B.190 requires the Board to contract with a certified actuary to perform an annual actuarial valuation study. Milliman, USA contracted with the Program in 1999 to provide these actuarial services. Milliman's FY 04 actuarial valuation report states that the Fund has assets that exceed the best estimate of the obligations by roughly \$2.0 million or 2.4% of obligations. The actuaries determined the stabilization reserve/ (deficit) position of the Program improved by \$6,295,817, from a deficit of (-\$4,334,759) to a surplus of \$1,961,058 as of June 30, 2004.

The Program contracts with GIF Services as the investment advisor. The asset allocation is divided equally between fixed income and equity investments. Atlanta Capital acts as the sub-advisor for the fixed income investments. The equity investments were diversified on August 28, 2002 among six different mutual funds: Dodge & Cox Stock Fund, Goldman Mid Cap Value Fund, Strong Mid Cap Disciplined Fund, FMI Common Stock Fund, Strong Adv. Small Cap Value Fund and Royce Low-Priced Stock Fund. The Board approved actively managed equity mutual fund investments as of June 30, 2004 which includes: Dodge & Cox Stock Fund, Goldman Mid Cap Value Fund, Vanguard Strategic Equity, FMI Common Stock Fund, American AADvantage Small Cap Value and Royce Low-Priced Stock Fund, whose total return was 30.22% which exceeded the benchmark by 1,111 basis points. The FY 04 earnings for the Fund increased by 13.02% overall for the Fund. The fixed income investment return was a negative -0.08% which still exceeded the benchmark by 13 basis points

NRS 353B.180 requires the Board to contract with a certified public accounting firm to perform an annual audit of the accounts and records of the State Treasurer and the Board. The Program contracted with Kafoury, Armstrong & Co. to conduct this annual financial audit. The audit for Fiscal Year 2004 produced a clean audit with no exceptions.

OBJECTIVES

The financial objectives of the Program have not changed since the inception of the Program. They are:

- Require the fair value of the Program's investments and assets to be greater than or equal to the actuarial value of all obligations including future tuition benefits and all future administrative expenses and liabilities associated with operating the Program.
- Establish an appropriate investment portfolio of assets to accumulate an amount sufficient to pay future tuition benefits and administrative expenses associated with all prepaid contracts.

- Establish contract plans and payment options that are affordable to most of Nevada's families.

STRATEGIES

Program prices are established in consideration of three basic criteria:

- The assumption regarding the growth rate of tuition at the University and Community College System of Nevada (UCCSN).
- The assumption regarding the rate of return on investments.
- The method to allocate the current and future administrative expenses of the Program.

The pricing schedule used for Fiscal Year 2004 was increased by approximately 10% (8.8% to 9.6% depending on the age of the child and the type of tuition purchased) for the enrollment period during FY 2004. This increase was sufficient to cover the material increases in UCCSN's tuition cost and the projected market returns on investments.

INVESTMENTS

Investments were made in accordance with the Program Investment Policies approved by the Board of Trustees of the College Savings Plans of Nevada for the Higher Education Tuition Trust Fund. The Board, in accordance with NRS 353B.90 (1), continued the program for prepayment of tuition at a guaranteed rate established by the annual actuarial study. The Board retained its anticipated average rate of investment return at 7.5%.

Future objectives and strategies will include a continuing reevaluation of the assumptions used to develop contract prices, refund policies for those who withdraw funds early and asset allocation of the Trust Fund portfolio in order to ensure its long term financial integrity.

SUMMARY OF INDEPENDENT AUDITOR'S REPORT

NRS 353B.180 requires the Board to contract with an independent certified public accounting firm to perform an annual audit of accounts and records of the State Treasurer and the Board. The Board contracted with independent auditors Kafoury, Armstrong & Co., which performed the audit on the Higher Education Tuition Trust Fund for the year ended June 30, 2004.

The Trust Fund received a clean audit with no qualifications. The material issues to note are:

- Fiduciary net assets held in trust as of June 30, 2004 increased to \$59,850,979 over FY 03 assets of \$44,894,825.
- The Trust Fund experienced an increase in net assets held in trust of \$14,956,154, with total additions of \$16,600,905 and deductions of only \$1,644,751.
- The change in net assets held in trust was budgeted at \$10,102,008 but was actually determined to be \$14,956,154. This improvement in actual over budgeted figures was a result of greater additions and lesser deductions than originally budgeted.

The financial statements of the Trust Fund have been prepared in conformity with United States generally accepted accounting principles (GAAP) as applied to government agencies and standards accepted by the Governmental Accounting Standards Board (GASB).

The Trust Fund is classified as a private purpose trust fund (a fiduciary fund) of the state of Nevada and thus is included in the state of Nevada's *Comprehensive Annual Financial Report*.

No material weaknesses involving the internal controls over financial reporting were found or reported.

STATE OF NEVADA
OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
JUNE 30, 2004

**STATE OF NEVADA
OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
JUNE 30, 2004**

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KAFOURY, ARMSTRONG & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees,
Higher Education Tuition Trust Fund

We have audited the accompanying financial statements of the State of Nevada, Office of the State Treasurer, Higher Education Tuition Trust Fund (the Trust Fund), a private-purpose trust fund of the State of Nevada, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Trust Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Trust Fund and do not purport to, and do not, present fairly the financial position of the State of Nevada as of June 30, 2004, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the Trust Fund as of June 30, 2004, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the Trust Fund's financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information has been subjected to the auditing procedures applied by us in the audit of the financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Kafoury, Armstrong & Co.

Reno, Nevada
November 17, 2004

**STATE OF NEVADA, OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004
(WITH COMPARATIVE TOTALS FOR JUNE 30, 2003)**

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and investments pooled with State Treasurer	\$ 105,028	\$ 356,676
Contribution receivable	2,537	2,978
Investment income receivable	291,413	176,402
Due from State of Nevada	1,961	26,453
Investments, at fair value	63,174,264	48,247,264
Collateral on loaned securities	<u>27,217</u>	<u>248,583</u>
Total Assets	<u>63,602,420</u>	<u>49,058,356</u>
LIABILITIES		
Accounts payable	12,535	62,206
Accrued salaries and benefits	14,239	13,934
Due to State of Nevada	14,180	135,165
Due to other governments	9,680	5,053
Obligations under securities lending	27,217	248,583
Advance from State of Nevada General Fund	<u>3,673,590</u>	<u>3,698,590</u>
Total Liabilities	<u>3,751,441</u>	<u>4,163,531</u>
FIDUCIARY NET ASSETS - Held in trust for:		
Benefits and administration	<u>\$ 59,850,979</u>	<u>\$ 44,894,825</u>

See accompanying notes.

STATE OF NEVADA, OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2003)

	<u>2004</u>	<u>2003</u>
ADDITIONS		
Participant contributions	\$ 10,177,410	\$ 10,514,861
Investment income	1,885,891	1,758,151
Administrative charges	19,622	20,997
Application fees	46,000	51,380
Cancellation and late fees	17,000	22,500
Net increase in fair value of investments	<u>4,454,982</u>	<u>1,210,458</u>
Total Additions	<u>16,600,905</u>	<u>13,578,347</u>
DEDUCTIONS		
Tuition payments	489,321	152,924
Refunds	650,988	648,882
Administrative costs	<u>504,442</u>	<u>899,073</u>
Total Deductions	<u>1,644,751</u>	<u>1,700,879</u>
CHANGE IN FIDUCIARY NET ASSETS HELD IN TRUST	14,956,154	11,877,468
FIDUCIARY NET ASSETS, Beginning of Year	<u>44,894,825</u>	<u>33,017,357</u>
FIDUCIARY NET ASSETS, End of Year	<u><u>\$ 59,850,979</u></u>	<u><u>\$ 44,894,825</u></u>

See accompanying notes.

**STATE OF NEVADA
OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the State of Nevada, Office of the State Treasurer, Higher Education Tuition Trust Fund (the Trust Fund) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity:

The Trust Fund operates under Nevada Revised Statutes (NRS) 353B, *Prepayment of Tuition At Institutions of Higher Learning*, which was adopted by the Nevada Legislature in 1997. The Trust Fund is administered by the Office of the State Treasurer under the direction of a five-member Board of Trustees (the Board).

The Trust Fund is a defined benefit program, which offers contracts, for actuarially determined amounts, guaranteeing full future tuition and mandatory fee payments at Nevada higher education institutions. The Trust Fund offers both a University Plan and a Community College Plan. Under the University Plan, participants may purchase 2 or 4 years of tuition credit hours (either 60 or 120 credit hours). Under the Community College Plan, participants may purchase 2 years of tuition credit hours (60 credit hours). Also offered is a combination plan that allows participants to purchase 2 years of tuition credit hours at a Community College and 2 years of tuition credit hours at a University (60 credit hours + 60 credit hours = 120 credit hours total). There are three payments options for each type of contract. A single lump sum payment, equal monthly installment payments until the beneficiary reaches college age, or a five-year option of 60 equal monthly installment payments. A purchaser enters into a contract for the future payment of tuition for a specified beneficiary. When the beneficiary enrolls in college, the program will pay the contract benefits. The beneficiary has ten years after the projected college entrance date to begin using the benefits of the contract, or until they reach the age of 30. Exceptions are granted for military service. The contract benefits are based on in-state rates for Nevada public colleges but can be used towards costs at any accredited, non-profit, private or out-of-state college.

The Trust Fund completed its fifth enrollment period on December 31, 2003 with 438 new enrollments, for a total enrollment of 9,107 at June 30, 2004.

**STATE OF NEVADA
OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Budget:

The budget for the Trust Fund is not legislatively adopted; therefore, a Statement of Changes in Fiduciary Net Assets – Budget to Actual is not a required part of these financial statements. Total budgeted deductions for the Trust Fund for the fiscal year ended June 30, 2004 were \$2,413,792, compared to actual deductions of \$1,644,751. A Deputy Treasurer and the Board exercise oversight responsibilities, including budgetary and financial oversight.

Measurement Focus and Basis of Accounting:

The Trust Fund is a private-purpose trust fund (a fiduciary fund) of the State of Nevada (State) and thus is included in the State of Nevada's *Comprehensive Annual Financial Report*. The accompanying financial statements present only the Trust Fund and are not intended to present fairly the financial position of the State of Nevada nor the changes in the State of Nevada's financial position in conformity with GAAP. The Trust Fund reports transactions and balances using the economic resources measurement focus and the accrual basis of accounting.

Cash and Investments:

Cash received by the Trust Fund that cannot be invested immediately in securities is pooled with the cash and investments of the State Treasurer. The State Treasurer is authorized by State statute to invest the pooled funds in accordance with policy guidelines approved by the Board of Finance of the State. The current resolution of that Board gives the State Treasurer authority to invest in collateralized certificates of deposit in authorized State depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, and various U.S. Treasury and Agency obligations, as well as securities lending transactions. The Trust Fund's investment in the pool is equal to its original investment plus allocations of interest, realized and unrealized gains and losses; the same as the value of the pool shares.

**STATE OF NEVADA
OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Custodian and Transfer Agent:

Wells Fargo Bank is the custodian and transfer agent for the Trust Fund.

Investment Valuation and Income Recognition:

Investments are reported at fair value as determined by quoted market prices. The investments are marked to market daily.

Security transactions are accounted for on the trade date (date order to buy or sell is executed). Interest income is determined on an accrual basis with discounts earned and premiums paid being amortized. Dividends are recorded on the ex-dividend date.

Comparative Data:

Comparative data shown for the prior year has been extracted from the June 30, 2003 financial statements. It has been provided to add comparability, but is not considered full disclosure of transactions for 2002-03. Such information can only be obtained by referring to the audited financial statements for that year.

NOTE 2 – CASH AND INVESTMENTS:

Trust Fund amounts on deposit and invested with the State Treasurer totaled \$105,028 at June 30, 2004. The custodial risk of the State Treasurer's pooled cash and investments is presented in the State's *Comprehensive Annual Financial Report* for the year ended June 30, 2004.

The following table provides a listing, at June 30, 2004, of the Trust Fund investments that are held outside of the amounts pooled with the State Treasurer. The table categorizes, in accordance with GASB Statement No. 3, the investment portfolio to give an indication of the level of risk associated with those investments at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the Trust Fund or its agent, in the Trust Fund's name.

**STATE OF NEVADA
OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 2 – CASH AND INVESTMENTS (Continued):

	Category <u>1</u>	Unclassified <u>as to Risk</u>	Fair <u>Value</u>
U.S. Government			
agency securities	\$13,496,951	\$ -	\$13,496,951
Corporate bonds and notes	6,430,795	-	6,430,795
U.S. Treasury Bills	1,397,704	-	1,397,704
U.S. Treasury Notes	<u>5,304,375</u>	<u>-</u>	<u>5,304,375</u>
	26,629,825	-	26,629,825
Other Mutual Funds	<u>-</u>	<u>36,544,439</u>	<u>36,544,439</u>
	<u>\$26,629,825</u>	<u>\$36,544,439</u>	<u>\$63,174,264</u>

NOTE 3 – SECURITIES LENDING:

A component of the State Treasurer's pooled investments, in which the Trust Fund is invested (see Note 2), are securities lending transactions, where the State's U.S. Government securities are loaned to broker-dealers and other entities with a simultaneous agreement to return the collateral received for the same securities in the future. The State's securities lending agency administers the securities lending program and receives cash (or other securities) equal to at least 102% of the fair value of the loaned securities plus accrued interest as collateral for securities of the type on loan at year-end. The collateral for the loans is maintained at 102%, and the value of the securities borrowed must be determined on a daily basis.

The State's securities on loan as of June 30, 2004 for cash collateral are presented as unclassified as to custodial risk in the State's *Comprehensive Annual Financial Report* for the year ended June 30, 2004. At June 30, 2004, the State has no credit risk exposure to borrowers because the amount the State owes to borrowers exceeds the amounts the borrowers owe to the State. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. The contract with the securities lending agent requires it to indemnify the State if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace securities lent) or fail to pay income distributions on them.

**STATE OF NEVADA
OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 3 – SECURITIES LENDING (Continued):

There are no restrictions on the amount of securities that can be loaned. Either the State or the borrower can terminate open securities loans on demand. Term securities loans can be terminated with five days notice by either the State or the borrower. Cash collateral is invested in accordance with the investment guidelines approved by the State of Nevada Board of Finance. The maturities of the investments made with cash collateral generally match the maturities of the securities loaned.

The fair value of the State's securities on loan at June 30, 2004 allocable to the Trust Fund is \$26,571. The fair value of the cash collateral received by the State in securities lending arrangements allocable to the Trust Fund of \$27,217 is reported on the Statement of Fiduciary Net Assets as an asset with a related liability. The total collateral received is in excess of the fair value of the investments held by broker/dealers under the securities lending agreement. The costs related to securities lending transactions allocable to the Trust Fund was \$3,882 for the year ended June 30, 2004.

NOTE 4 – CONTRACT BENEFITS LIABILITY:

In accordance with accounting principles generally accepted in the United States of America, no liability for future contract benefits has been recorded in these financial statements. An actuarial valuation has been performed on the Trust Fund's net assets and estimated future obligations as of June 30, 2004, as follows:

Actuarial Value of the Fund's Net Assets	\$84,145,058
Present Value of Obligations for Future Benefits	<u>82,184,000</u>
Excess	<u>\$ 1,961,058</u>

The Trust Fund retains an independent actuarial firm to:

- Calculate the actuarial present value of the Trust Fund's contracts purchased through June 30, 2004 and compare the value of those obligations with the assets in the Trust Fund as of that date;

**STATE OF NEVADA
OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 4 – CONTRACT BENEFITS LIABILITY (Continued):

- Review the experience and changes in the actuarial assumptions and methods during the last year and indicate their effects on the results; and
- Set forth the basis for the actuarial assumptions and methods utilized in those calculations.

Significant assumptions used in the actuarial valuation include the following:

- The investment return assumption of 7.50% per year; and
- The tuition growth assumptions summarized in the table below.

	<u>Universities</u>	<u>Community Colleges</u>
Fall 2005 through Summer 2009	7.50%	5.00%
Fall 2009 and later	5.75%	5.00%

NOTE 5 – ADVANCE FROM STATE OF NEVADA GENERAL FUND:

The legislation that established the Trust Fund also provided for appropriations from the State's General Fund. These appropriations were made at the beginning of each fiscal year and were deemed to be an advance from the General Fund. Commencing July 2003, the Trust Fund no longer received advances from the General Fund and began repaying the advances over a ten-year period.

The State Legislature, during its 2003 Session, approved repayment of the advance to the General Fund from the State of Nevada College Savings Program. To date, repayments have been solely from the Trust Fund, however, it is anticipated that repayment of the advance from the College Savings Program will begin during the fiscal year ending June 30, 2006 and repayment by the Trust Fund will cease.

Repayments by the Trust Fund for the year ended June 30, 2004 totaled \$25,000.

**STATE OF NEVADA
OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 6 – PENSION PLAN:

Plan Description. The Trust Fund contributes to the Public Employees Retirement System of the State of Nevada (PERS), a cost sharing, multiple employer, defined benefit plan administered by the Public Employees Retirement System of the State of Nevada.

PERS provides retirement benefits, disability benefits, and death benefits, including annual cost of living adjustments, to plan members and their beneficiaries. Chapter 286 of the Nevada Revised Statutes establishes the benefit provisions provided to the participants of PERS and the funding policy. These provisions may only be amended through legislation. The Public Employees Retirement System of the State of Nevada issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System of the State of Nevada, 693 West Nye Lane, Carson City, NV 89703-1599 or by calling (775) 687-4200.

Funding Policy. Plan members' benefits are funded under one of two methods. Under the employer pay contribution plan, the Trust Fund is required to contribute all amounts due under the plan. The rate for those contributions was 20.25% for regular members on all covered payroll for the year ended June 30, 2004. The second funding mechanism for providing benefits is the employer/employee paid contribution plan. Under this method, employees are required to contribute a percentage of their compensation to the plan, while the Trust Fund is required to match that contribution. The rate for regular employees under this plan for the year ended June 30, 2004 was 10.50%. The Trust Fund's contribution rates on all covered payroll and amounts contributed, which are equal to the required contributions, for the last three years are as follows:

<u>Fiscal Year</u>	<u>Employer Pay</u>	<u>Employee/ Employer Pay</u>		<u>Total Employer Contribution</u>
		<u>EE</u>	<u>ER</u>	
2003-04	20.25%	10.50%	10.50%	\$21,512
2002-03	18.75%	9.75%	9.75%	20,644
2001-02	18.75%	9.75%	9.75%	23,866

**STATE OF NEVADA
OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004**

NOTE 7 - RISK MANAGEMENT:

As with all governmental entities, the Trust Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. Such losses, if any, are accounted for in the State's various insurance funds. The Trust Fund is responsible for premium charges payable to the State for coverage in the self-funded programs. There have been no material settlements related to the Trust Fund in any of the past three years.

**STATE OF NEVADA, OFFICE OF THE STATE TREASURER
HIGHER EDUCATION TUITION TRUST FUND
SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS-BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE TO BUDGET</u>
ADDITIONS			
Participant contributions	\$ 10,200,000	\$ 10,177,410	\$ (22,590)
Investment income	2,200,000	1,885,891	(314,109)
Administrative charges	19,200	19,622	422
Application fees	46,000	46,000	-
Cancellation and late fees	50,600	17,000	(33,600)
Net increase in fair value of investments	<u>-</u>	<u>4,454,982</u>	<u>4,454,982</u>
Total Additions	<u>12,515,800</u>	<u>16,600,905</u>	<u>4,085,105</u>
DEDUCTIONS			
Tuition payments	1,000,000	489,321	510,679
Refunds	675,000	650,988	24,012
Administrative costs	<u>738,792</u>	<u>504,442</u>	<u>234,350</u>
Total Deductions	<u>2,413,792</u>	<u>1,644,751</u>	<u>769,041</u>
CHANGE IN FIDUCIARY NET ASSETS HELD IN TRUST	10,102,008	14,956,154	4,854,146
FIDUCIARY NET ASSETS, Beginning of Year	<u>51,412,292</u>	<u>44,894,825</u>	<u>(6,517,467)</u>
FIDUCIARY NET ASSETS, End of Year	<u>\$ 61,514,300</u>	<u>\$ 59,850,979</u>	<u>\$ (1,663,321)</u>

SUMMARY OF ACTUARIAL VALUATION REPORT

NRS 353B.190 requires the Program to contract with a certified actuary to perform an annual actuarial valuation study of the Trust Fund. The Actuarial Valuation Report prepared by Milliman USA is included in this report. The report acknowledges that the Nevada Prepaid Tuition Program has sufficient assets including the value of future installment payments, to cover the actuarially estimated value of the tuition obligations under all contracts outstanding as of the valuation date.

As of June 30 2004, the report shows that the Higher Education Tuition Trust Fund had assets that exceed the best estimate of the obligations by roughly \$2.0 million or 2.4% of obligations.

- During FY 04, the stabilization reserve/ (deficit) position of the Program improved from a deficit of (-\$4,334,759) to a stabilization reserve surplus of \$1,961,057.
- The improvement is primarily attributable to investment gains and contributions to the stabilization reserve from new sales.
- The return on Fund investments was approximately 11.9% on a dollar-weighted basis. In the previous valuation, a 7.5% return was assumed. Thus, actual investment returns were 4.4% higher than expected. This decreased the prior year's deficit by \$2,349,986.
- Milliman estimates that a fund balance of \$82.2 million would be 100% of their "Best Estimate" Reserve needed. As of June 30, 2004, the actual fund balance is \$84.1 million (the present value of obligations for future tuition payments), or 102% of the actuarially determined "Best Estimate" Reserve.
- The Trust Fund consistently receives contract payments from existing installment purchasers of approximately \$500,000 per month, which will continue to reduce the deficit.
- The starting Market Value of Investments as of July 1, 2004 is \$63.6 million. At the end of the 2025 fiscal year, all tuition obligations associated with units already purchased are expected to have been paid, resulting in a residual surplus stabilization reserve of \$12.6 million.

Milliman USA highlights the point that the Board of Trustees has taken, and will continue to take, the necessary steps to improve the soundness of the program and to increase the Stabilization Reserve.

ACTUARIAL VALUATION
OF THE
NEVADA PREPAID TUITION PROGRAM

JUNE 30, 2004

By:

ALAN H. PERRY, FSA, CFA
WILLIAM A. REIMERT, FSA, CFA

This report has been prepared for the use of and is only to be relied upon by the Nevada Prepaid Tuition Program. It may not be appropriate for other purposes. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this report. Any reader of this report must possess a certain level of expertise in areas relevant to this analysis to appreciate the significance of the assumptions and the impact of these assumptions on the illustrated results. The reader should be advised by actuaries or other professionals competent in the area of actuarial projections of the type in this report, so as to properly interpret the projection results.



Milliman

Consultants and Actuaries

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www.milliman.com

January 24, 2005

Nevada Prepaid Tuition Program
555 E. Washington Ave.
Suite 4600
Las Vegas, NV 89101

Ladies and Gentlemen:

This report presents the results of our actuarial valuation of the Nevada Prepaid Tuition Program as of June 30, 2004.

Purpose

The main purposes of this report are:

- to calculate the actuarial present value of the obligations for prepaid tuition contracts purchased through June 30, 2004 and compare the value of those obligations with the assets in the Fund as of that date;
- to review the experience and changes in the actuarial assumptions and methods during the last year and indicate their effects on the results; and
- to set forth the basis for the actuarial assumptions and methods utilized in those calculations.

The results contained in this report are based on contract data and preliminary financial statements provided by the Nevada Prepaid Tuition Program. We have relied on this data in preparing this report.

Certification

Based on the following, the Nevada Prepaid Tuition Program has sufficient assets, including the value of future installment payments, to cover the actuarially estimated value of the tuition obligations under all contracts outstanding as of the valuation date. This determination has been based on reasonable actuarial assumptions that represent the Program's best estimate of anticipated experience under the Prepaid Tuition Program taking into account past experience and future expectations. Since the results of the valuation are dependent on the actuarial assumptions used, actual results can be

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expected to deviate from the figures indicated in this report to the extent that future experience differs from those assumptions.

Background

Chapter 353B of the Nevada Revised Statutes created the Nevada Prepaid Tuition Program to help families save for the cost of higher education. The Act created the Nevada Higher Education Tuition Trust Fund Board of Trustees (the "Board"). Section 353B.090 stated "The board shall develop a program for the prepayment of tuition at a guaranteed rate which is established based on the annual actuarial study required pursuant to NRS 353B.190 for undergraduate studies at a university or community college that is a member of the system."

This Act also created the Nevada Higher Education Tuition Trust Fund (the "Fund"), which consists of payments received pursuant to a prepaid tuition contract, a bequest, endowment or grant from the Federal Government or any other public or private source of money. All income derived from investments in the Fund and gains from a sale or exchange shall be credited to the Fund. Money in the Fund that is not expended during any biennium does not revert to the state general fund at any time.

The Nevada Prepaid Tuition Program offers four plan types; a University Plan providing 120 credit hours (8 semesters) of tuition at a state university, a University Plan providing 60 credit hours (4 semesters) of tuition at a state university, a Community College Plan providing 60 credit hours (4 semesters) of tuition at a state community college, and a Community College Plus University Plan providing 60 credit hours (4 semesters) of tuition at a state community college and 60 upper division level credit hours (4 semesters) of tuition at a state university.

Purchasers are allowed to pay for their contracts by choosing one of three payment options: 1) a single lump sum payment, 2) equal monthly payments until the beneficiary reaches college age, or 3) a five year plan of 60 equal monthly payments.

The purpose of this actuarial valuation is to estimate the obligations of the Prepaid Tuition Program for all future payments associated with Prepaid Contracts purchased as of the valuation date. The value of those obligations is then compared with the Fund Balance to determine the current financial position of the Prepaid Tuition Program.

Statutory Requirements

Section 353B.160(10) states that "if the annual actuarial study performed pursuant to NRS 353B.190 reveals that there is insufficient money to ensure the actuarial soundness of the trust fund, the board shall modify the terms of subsequent prepaid tuition contracts."

"Actuarially sound" is not a precise concept and there is no generally accepted understanding of the meaning of this phrase within the actuarial profession, especially with respect to Prepaid Tuition Programs. For purposes of this report, we have assumed that

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the phrase “actuarially sound” when applied to the Fund, means that the Fund has sufficient assets (including the value of future installment payments due under current contracts) to cover the actuarially estimated value of the tuition obligations under those contracts (including any administrative costs associated with those contracts).

We have also interpreted these Sections to require that the actuarial liabilities be evaluated using sound actuarial principles that are generally consistent with the practices and principles widely used for retirement programs. Reference to other programs is necessary because of the innovative nature of a Prepaid Tuition Program. No generally accepted Standard of Practice has evolved within the actuarial profession specifically addressing Prepaid Tuition Programs. We chose the standards applicable to retirement programs because these programs generally provide for payments at some future date where that payment has a high probability of payment at, or close to, some specific age.

Valuation Basis

For retirement programs, the traditional conservative approach to setting actuarial assumptions has been modified over the last 40 years due to the "best estimate" requirements of the Employee Retirement Income Security Act ("ERISA"). This "best estimate" requirement was re-enforced by Financial Accounting Standards Board Statements No. 35, 87 and 106 regarding the calculation of pension obligations for private sector, GAAP reporting purposes. Moreover, it has been adopted by the Actuarial Standards Board in Actuarial Standard of Practice No. 27 regarding “Selection of Economic Assumptions for Measuring Pension Obligations.”

It is not clear to us from the statute which standard of “actuarial soundness” was contemplated by the legislature. For purposes of this report, we have adopted the "best estimate" approach.

The method for determining the “best estimate” liability for the Program reflects the possible variability of inflation, tuition, and investment returns and the correlation between each of these variables. This methodology is described in the section below, Variability of Results and Valuation Basis.

Investment Policy

The Investment Policy for the Prepaid Tuition Program is determined by the Board and implemented by the State Treasurer. The Investment Policy is important because it sets forth acceptable investment allocations among asset classes. The asset allocation affects the magnitude and variability of investment returns realized and therefore the financial structure of the plan.

For the Valuation, we have assumed that Program investments will be allocated as follows:

US Large Cap Equity	30%
US Mid-Cap Equity	10%
US Small Cap Equity	10%
Fixed Income	50%

Actuarial Assumptions

The actuarial assumptions used to prepare this report are summarized in Appendix C. The two most significant of those assumptions are the rate of investment returns and tuition growth in the future. The Nevada Prepaid Tuition Program selected both of these assumptions. They are:

- the investment return assumption of 7.50% per year (this is the same as the investment return assumption used to prepare the prior year's report); and,
- the tuition growth assumptions summarized in the table below.

	<u>Universities</u>	<u>Community Colleges</u>
Fall 2005	7.50%	5.00%
Fall 2006	7.50%	5.00%
Fall 2007	7.50%	5.00%
Fall 2008	7.50%	5.00%
Fall 2009 and later	5.75%	5.00%

New Refund/Rollover Policy

The Program implemented a new policy for refund and rollover requests in April 2004. Under the new policy, contractholders requesting a refund or a rollover to another college savings plan will receive an amount equal to 100% of the payments made under the contract, net of fees. Under the previous policy, the amount of the refund or rollover was 86.08% of the contract payments.

We believe that it is important to reflect the expected impact of these increased refunds/rollovers on the program's future obligations. Based on contract information provided by the Program on 464 refunds and 31 rollovers paid out over the past two years, we developed the following assumptions and applied them in this year's valuation:

Percentage of Contracts Requesting a Refund or Rollover Each Year

<u>Years Since Enrollment</u>	<u>Extended Payment Contract</u>	<u>60-Payment Contract</u>	<u>Lump Sum Contract</u>
1 - 3	5.00%	3.00%	0.50%
4	3.50%	1.25%	0.50%
5	2.00%	1.20%	0.50%
6 or higher	0.50%	0.50%	0.50%

Summary of Results

The actuarial value of the obligations of the Prepaid Tuition Program as of June 30, 2004 is summarized below and compared with the balance in the Fund.

	<u>Present Value of Obligations for Future Payments</u>	<u>Value of Total Fund Assets*</u>	<u>Stabilization Reserve/(Deficit)</u>
<u>Prepaid Tuition Program:</u>			
Tuition Obligations	\$81,540,000	n/a	n/a
Administrative Expenses	<u>644,000</u>	<u>n/a</u>	<u>n/a</u>
Grand Total	\$82,184,000	\$84,145,058	\$1,961,058

* Total Fund Assets is the sum of the market value of program investments and the present value of installment contract receivables.

During the 2004 fiscal year, the Board has dedicated revenue from the College Savings Plans to repay the general fund loan. As a result, the loan is no longer reflected in this valuation.

The present value of future obligations for Administrative Expenses reflects the expected costs of administering existing contracts until all tuition benefits have been paid and the expenses associated with making those payments. It does not include the future expenses of the Program associated with general overhead and marketing.

As indicated above, the Fund has assets that exceed the best estimate of the obligations by roughly \$2.0 million or 2.4% of obligations. Unfavorable future experience would adversely affect this position. It would be desirable to accumulate a stabilization reserve over time to provide a cushion against the risk of adverse deviations in tuition and/or investment growth experience.

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Actuarial Gain/Loss Analysis

During the 2004 fiscal year, the stabilization reserve/(deficit) position of the Program improved from a deficit of \$4,334,759 to a stabilization reserve of \$1,961,058, which is 2.4% of obligations. The improvement is mostly attributable to investment gains and contributions to the stabilization reserve from new sales. Each of the factors affecting the stabilization reserve is discussed below.

The actuarial deficit was expected to grow during the year by \$325,107 due to the passage of time. (The obligation is calculated as a present value which grows with interest each year.)

During the 2004 fiscal year, there were 490 enrollments. Each contract sold contributes to the stabilization reserve. We estimate that \$1.6 million of stabilization reserve was generated by the new contracts resulting in a decrease in the deficit. However, fewer contracts were sold than expected during the year, which generated a loss of \$369,976.

The return on Fund investments was approximately 11.9% on a dollar-weighted basis. In the previous valuation, a 7.5% return was assumed. Thus, actual investment returns were 4.4% higher than expected. This decreased the deficit by \$2,349,986.

The economic assumptions regarding risk used in the stochastic model were updated. These changes increased the deficit by \$100,000.

Due to the change in the refund/rollover policy, an assumption regarding future requests for refunds/rollovers was added to the valuation method. This increased the stabilization reserve by \$450,422 (before reflecting the new refund/rollover policy). The change in the refund policy from paying 86.08% of contract payments to 100% of contract payments decreased the stabilization reserve by about \$375,000.

Other factors reducing the deficit included budgetary savings and additional borrowings from the State to cover the program's administrative expenses for the year. The Board of Trustees of the College Savings Plans of Nevada voted to dedicate revenue from the College Savings Plans to repay the loan to the State. Therefore, the loan is no longer an obligation of the Prepaid Fund. The combined effect reduced the deficit by about \$2,300,000.

In summary, the stabilization reserve changes due to experience and assumption changes can be summarized as follows:

Stabilization Reserve / (Deficit) as of June 30, 2003	\$(4,334,759)
Interest on the deficit at 7.5% due to the passage of time	(325,107)
Addition to stabilization reserve from new contracts	1,616,418
Fewer contracts sold than expected	(369,976)
Investment gain	2,349,986
Change in economic risk assumptions	(100,000)
Use of refund/rollover assumption	450,422
Change to refund/rollover policy	(375,000)
Removal of Loan	2,300,000
Other	<u>749,074</u>
Stabilization Reserve / (Deficit) as of June 30, 2004	\$1,961,058

Variability of Results and Valuation Basis

The present values of the obligations shown above were based on assumptions that represent an estimate of anticipated experience under the Prepaid Tuition Program that are reasonably related to past educational cost and investment data. Differences between those projections and actual amounts will depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

A prime source of variation will be normal fluctuations that occur in the rate of increase in tuition, investment returns, inflation, etc. One way of estimating the range of possible outcomes is to stochastically model the financial operation of the Program using Monte Carlo techniques. This approach involves preparing 1,000 projections of financial results under randomly derived scenarios of tuition growth and investment returns. Each of these scenarios is based on statistical factors such as standard deviation and correlation that were established by reviewing historical results and then adjusting where appropriate to reflect current conditions.

For each scenario, we determined whether the Fund would run out of money before all tuition and expense obligations were paid. By tabulating the results under all of these projections we estimated the probability of having the assets of the Prepaid Tuition Program exceed its obligations. Note that for this analysis, a scenario where the Fund comes up as little as one dollar short is considered a scenario where Fund assets do not exceed obligations. Also note that we have assumed there are no additional contracts sold and no changes are made to the asset mix throughout the projection period. We have also assumed that all future installment payments will be made.

We have summarized in the table below the results of this process. It is important to understand that these results are only illustrative of the range of results that are possible and are dependent on the assumptions utilized. They do not necessarily represent the “true” probability of future events, which, of course, are unknown. The assumptions are presented in detail in Appendix C.

(Amounts in Millions)

<u>Percentage of “Best Estimate” Reserve</u>	<u>Total Fund Value at June 30, 2004</u>	<u>Probability of Funds Exceeding Obligation</u>
90%	\$74.0	31%
100%	82.2	50%
102%	84.1	54% *
110%	90.4	67%
120%	98.6	79%
130%	106.8	88%
140%	115.1	92%
150%	123.3	95%

*Actual Fund Position

The “Best Estimate” Reserve of \$82.2 million represents the level of assets necessary as of June 30, 2004 to achieve a 50% probability of sufficiency. This includes the present value of Installment Contract Receivables. The actual Fund balance at June 30, 2004 of \$84.1 million is thus 102% of the actuarially determined “Best Estimate” Reserve. As indicated in the above table, this Fund balance is estimated to have a 54% probability of being adequate to satisfy all Program obligations. We believe the 54% figure should be viewed as a risk index. To date the Program has a goal to gradually build a Stabilization Reserve to help absorb the risk of adverse deviations in investment and tuition growth experience. As the Reserve grows relative to the Program obligations, we would expect to see this risk index measure improve. We included in the table the probability of sufficiency associated with other funding levels to illustrate the sensitivity of this measure to the level of funding.

Data Reliance

In performing this analysis, we relied on data and other information provided by the Nevada Prepaid Tuition Program. We have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

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We performed a limited review of the data used directly in our analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment.

Cash Flow Projection

Appendix E shows a cash flow projection based on the actuarial assumptions. The starting Market Value of Investments as of July 1, 2004 is \$63.6 million. At the end of the 2025 Fiscal Year all tuition obligations associated with units already purchased are expected to have been paid, resulting in a residual stabilization reserve of \$12.6 million. Since the actuarial assumptions are intended to represent "best estimates" of future expenses, there is a 50% probability that results will be less favorable than indicated and a 50% probability that results will be more favorable.

We look forward to reviewing the results of our analyses with you and the Board at your earliest convenience.

Respectfully submitted,

MILLIMAN, INC.

Alan H. Perry, FSA, CFA
Member American Academy of Actuaries

William A. Reimert, FSA, CFA
Member American Academy of Actuaries

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Attachments

Nevada Prepaid Tuition Program

I. Statement of Assets as of June 30, 2004

<u>Investments</u>	<u>Market Value</u>
1) Equity	\$35,200,659
2) Fixed Income	<u>28,410,123</u>
Total Market Value of Investments	\$63,610,782
 Present Value of Installment Contract Receivables	 <u>20,534,276</u>
 Value of Total Fund Assets	 \$84,145,058

II. Reconciliation of Investments

1) Investments at June 30, 2003	\$48,415,560
2) Contract Purchase Payments	10,190,284
3) Investment Earnings	6,317,263
4) Tuition Payments and Refunds	(1,229,704)
5) Administrative Expense	<u>(82,621)</u>
6) Investments at June 30, 2004	\$63,610,782
 Dollar-weighted rate of return	 11.9%

Appendix A

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Nevada Prepaid Tuition Program

Participant Data as of June 30, 2004

Number of Contracts by Plan Type

Matriculation Year	University Plan (4 yrs)	Community College Plus University Plan	Community College Plan	University Plan (2 yrs)	Total
2002	70	15	5	0	90
2003	157	33	20	0	210
2004	271	44	21	14	350
2005	352	39	32	11	434
2006	379	59	34	18	490
2007	440	73	21	15	549
2008	450	70	37	18	575
2009	482	67	24	23	596
2010	518	60	23	19	620
2011	495	59	21	12	587
2012	506	67	28	15	616
2013	518	47	20	18	603
2014	460	53	20	19	552
2015	463	43	27	12	545
2016	515	48	16	14	593
2017	460	40	24	13	537
2018	440	39	14	14	507
2019	332	20	5	5	362
2020	127	14	4	9	154
2021	<u>120</u>	<u>7</u>	<u>3</u>	<u>7</u>	<u>136</u>
Total	7,555	897	399	256	9,107

Appendix B

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Nevada Prepaid Tuition Program

Summary of Actuarial Assumptions

Economic Assumptions for Simulation Model:

	<u>Inflation</u>	<u>Large Cap</u>	<u>Mid Cap</u>	<u>Small Cap</u>	<u>Fixed Income</u>	<u>University Tuition</u>	<u>Community College Tuition</u>
Expected Arithmetic Annual Return	2.50%	10.20%	11.20%	11.20%	5.50%	7.50%/5.85%	5.05%
Standard Deviation	3.10	17.55	18.95	22.95	7.55	4.90	5.35
Correlation with:							
Inflation	1.00	-0.20	-0.12	-0.01	-0.30	0.07	-0.02
Large Cap		1.00	0.90	0.79	0.47	0.13	0.49
Mid Cap			1.00	0.95	0.51	0.22	0.56
Small Cap				1.00	0.41	0.32	0.66
Fixed Income					1.00	0.15	0.34
University Tuition						1.00	0.73
Community College Tuition							1.00

Equivalent Deterministic Economic Assumptions:

The assumptions shown below, used deterministically, would produce the same “best estimate” obligation developed by the Simulation Model assumptions shown above and used in the valuation.

Consumer Price Index (CPI) Inflation Rate	2.50%, per annum
Investment Returns	7.36%, per annum
University Tuition Growth: Next 4 years	7.50%, per annum
University Tuition Growth: Thereafter	5.75%, per annum
Community College Tuition Growth	5.00%, per annum

Percentage of Contracts Requesting a Refund or Rollover Each Year:

<u>Years Since Enrollment</u>	<u>Extended Payment Contract</u>	<u>60-Payment Contract</u>	<u>Lump Sum Contract</u>
1 - 3	5.00%	3.00%	0.50%
4	3.50%	1.25%	0.50%
5	2.00%	1.20%	0.50%
6 or higher	0.50%	0.50%	0.50%

Appendix C
(Page 1 of 2)

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Nevada Prepaid Tuition Program
Summary of Actuarial Assumptions
(continued)

Expenses:

The expenses included in the present value of future obligations are those relating to:

Annual Maintenance Expense per Contract = \$5.57

Annual Distribution Cost per Contract in Payment Status = \$9.27

A monthly processing expense of \$1.50 has been netted out in calculating the present value of Installment Contract receivables.

Expenses are assumed to increase at a rate equal to CPI + .5%.

Appendix C
(Page 2 of 2)

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Nevada Prepaid Tuition Program

Recent History of Per Credit Hour Tuition in Nevada

<u>Academic Year</u>	<u>Average Community College Tuition</u>	<u>Percent Increase</u>	<u>University Tuition</u>	<u>Percent Increase</u>
1982-1983	\$17.00		\$31.00	
1983-1984	20.92	23.0%	36.00	16.1%
1984-1985	20.88	-0.2	36.00	0.0
1985-1986	20.88	0.0	36.00	0.0
1986-1987	20.89	0.0	36.00	0.0
1987-1988	21.36	2.3	36.00	0.0
1988-1989	21.35	-0.1	40.00	11.1
1989-1990	21.34	0.0	40.00	0.0
1990-1991	24.00	12.4	46.00	15.0
1991-1992	26.00	8.3	49.00	6.5
1992-1993	28.00	7.7	55.50	13.3
1993-1994	29.50	5.4	55.50	0.0
1994-1995	30.50	3.4	58.00	4.5
1995-1996	33.50	9.8	61.00	5.2
1996-1997	36.50	9.0	64.00	4.9
1997-1998	38.00	4.1	66.50	3.9
1998-1999	39.50	3.9	69.00	3.8
1999-2000	41.00	3.8	71.50	3.6
2000-2001	42.50	3.7	74.00	3.5
2001-2002	44.00	3.5	76.50	3.4
2002-2003	44.50	1.1	79.00	3.3
2003-2004	47.25	6.2	85.00	7.6
2004-2005	49.00	3.7	91.00	7.1

Annualized Increase in Tuition

Over last 5 years:	3.6%	4.9%
Over last 10 years:	4.9	4.6
Over last 20 years:	4.4	4.7

Appendix D

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Nevada Prepaid Tuition Program

Cash Flow Projection

(\$Millions)

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Monthly Payments</u>	<u>Tuition Benefits</u>	<u>Expenses</u>	<u>Loan Repayment</u>	<u>Investment Income</u>	<u>Ending Balance</u>
2005	63.6	6.0	2.4	0.058	0.000	4.9	72.0
2006	72.0	4.6	3.5	0.062	0.000	5.4	78.4
2007	78.4	3.4	4.7	0.066	0.000	5.7	82.7
2008	82.7	2.6	6.1	0.070	0.000	6.0	85.1
2009	85.1	2.0	6.9	0.070	0.000	6.1	86.2
2010	86.2	1.5	7.8	0.071	0.000	6.2	86.0
2011	86.0	1.4	8.7	0.071	0.000	6.0	84.6
2012	84.6	1.1	9.2	0.069	0.000	5.9	82.3
2013	82.3	0.9	9.9	0.068	0.000	5.7	78.9
2014	78.9	0.8	10.5	0.066	0.000	5.5	76.6
2015	76.6	0.6	10.7	0.062	0.000	5.1	69.5
2016	69.5	0.5	11.0	0.059	0.000	4.7	63.6
2017	63.6	0.4	11.4	0.056	0.000	4.1	56.6
2018	56.6	0.3	11.6	0.052	0.000	3.6	48.8
2019	48.8	0.2	12.0	0.048	0.000	2.9	39.9
2020	39.9	0.1	11.6	0.043	0.000	2.3	30.7
2021	30.7	0.0	9.4	0.033	0.000	1.8	23.1
2022	23.1	0.0	7.4	0.024	0.000	1.3	17.0
2023	17.0	0.0	4.3	0.014	0.000	1.0	13.7
2024	13.7	0.0	1.9	0.006	0.000	0.9	12.7
2025	12.7	0.0	1.0	0.003	0.000	0.9	12.6

Appendix E

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SUMMARY OF INVESTMENT REPORTS

GIF Services contracts as the Program's consultant for investment management services for the Higher Education Tuition Trust Fund. Included in this annual report is the FY 04 annual investment summary as of June 30, 2004.

The asset allocation of the portfolio approved by the Board of Trustees of the College Savings Plans of Nevada is an equal split of 50% fixed income/50% equities. The fixed income investments were managed by Atlanta Capitol Management. The equity portion of the portfolio was diversified into six mutual funds. The Board decided to allocate 36% to Large Cap Core, 24% to Large Cap Value, 20% to Mid Cap Equities and 20% to Small Cap Equities. The six mutual funds in the equity investment are: Dodge & Cox Stock Fund, Goldman Mid Cap Value Fund, Vanguard Strategic Equity, FMI Common Stock Fund, American AADvantage Small Cap Value Fund and Royce Low-Priced Stock Fund. The Board has also approved an additional equity investment of GIF/INVESCO Enhanced Index Fund. The portfolio is examined by the Board at every meeting and is rebalanced whenever considered appropriate by the Board.

The total returns for the investments in FY 04 on a quarterly basis are as follows:

- quarter ending September 2003: 2.21%;
- quarter ending December 2003: 7.06%;
- quarter ending March 2004: 3.65%; and
- quarter ending June 2004: -0.35%.

The six equity mutual fund investments composite return of 30.22% for the FYTD ending June 30, 2004 exceeded the Standard & Poor's 500 (Benchmark) by 1,111 basis points. The enhanced equity investment return for the last two quarters of FY 04 was 3.11%. The fixed income investment return for FTD was -0.08%

The total annualized return for FY 04 ending June 30, 2004 for all the fixed income and equity investments combined was 13.02%.

Investment Report

Mutual Fund Investments – Monitored by GIF

Nevada Higher Education Tuition Trust Fund Board

Quarter Ending June 30, 2004

Summary of Mutual Fund Investments*

		2nd Quarter 2004			January - June 2004			Fiscal YTD		
		Total Return	Portfolio vs. Benchmark	Spread +/-	Total Return	Portfolio vs. Benchmark	Spread +/-	Total Return	Portfolio vs. Benchmark	Spread +/-
Equity Mutual Fund Investments										
Dodge & Cox Stock Fund	\$ 8,545,403	1.06%			6.08%			27.13%		
S&P 500/Bara Value (Benchmark)		0.80%	above	0.26%	4.17%	above	1.91%	22.26%	above	4.87%
Russell 1000 Value Index (Benchmark)		0.88%	above	0.18%	3.94%	above	2.14%	21.13%	above	6.00%
Goldman Mid Cap Value Fund	\$ 2,385,737	2.75%			10.37%			30.65%		
S&P Midcap 400/Barra Value (Benchmark)		1.19%	above	1.56%	6.78%	above	3.59%	33.35%	below	-2.70%
Russell Midcap Value Index (Benchmark)		1.73%	above	1.02%	7.17%	above	3.20%	30.81%	below	-0.16%
Vanguard Strategic Equity	\$ 2,426,286	0.76%			6.73%			30.25%		
S&P Midcap 400 (Benchmark)		0.97%	below	-0.21%	6.09%	above	0.65%	27.98%	above	2.27%
Russell Midcap Index (Benchmark)		1.45%	below	-0.69%	6.67%	above	0.06%	29.39%	above	0.86%
FMI Common Stock Fund	\$ 2,340,373	5.48%			9.74%			24.87%		
S&P Midcap 400 (Benchmark)		0.97%	above	4.51%	6.09%	above	3.66%	27.98%	below	-3.11%
Russell Midcap Index (Benchmark)		1.45%	above	4.03%	6.67%	above	3.07%	29.39%	below	-4.52%
American AAdvantage Small Cap VL	\$ 3,915,315	0.00%			8.20%			38.93%		
S&P SmallCap 600/Barra Value (Benchmark)		2.88%	below	-2.88%	9.71%	below	-1.51%	35.99%	above	2.94%
Russell 2000 Value Index (Benchmark)		0.85%	below	-0.85%	7.83%	above	0.37%	35.17%	above	3.76%
Royce Low-Priced Stock Fund	\$ 3,936,739	-2.12%			5.72%			31.61%		
S&P SmallCap 600 (Benchmark)		3.60%	below	-5.72%	10.05%	below	-4.33%	35.25%	below	-3.64%
Russell 2000 Index (Benchmark)		0.47%	below	-2.59%	6.76%	below	-1.04%	33.37%	below	-1.76%
Total Mutual Funds	\$ 23,549,853									
Mutual Fund Composite Return		0.89%			7.21%			30.22%		
S&P 500 (Benchmark)		1.72%	below	-0.83%	3.44%	above	3.77%	19.11%	above	11.11%

* The returns shown for the mutual funds above are for the funds not the Trust Fund's investment in these funds. Changes in mutual fund investments result in these returns being approximations, not the actual return of the of the Trust Fund's investment. The Mutual Fund Composite returns are approximate returns based on the weighted returns of each investment, utilizing the market value of each investment at the beginning of each quarter. On November 25, 2003, funds were transferred from the Strong Mid-Cap Disc. Fund to the Vanguard Strategic Equity Fund and the Strong Small Cap Value Fund to the American AAdvantage Small Cap Value Fund, respectively.

G.I.F. Services Investment Report

GIF Sub-Advisor Managed Investments

Nevada Higher Education Tuition Trust Fund Board

Quarter Ending June 30, 2004

Summary of Portfolio Returns												
	Assets Under Management (at market value)	2nd Quarter 2004				January - June 2004				Fiscal YTD*		
		Total	Portfolio vs. Benchmark	Spread +/-	Yield to Maturity	Total	Portfolio vs. Benchmark	Spread +/-	Total Return	Portfolio vs. Benchmark	Spread +/-	
Fixed Income Investment												
GIF/Atlanta Capital Mgt.	\$ 14,384,123	-1.54%	above	0.90%	3.50%							
GIF/Trusco Capital Mgt.	\$ 13,914,000	-2.30%	above	0.14%	4.00%							
Lehman Agg. Index (Benchmark)		-2.44%	NA	NA	4.60%							
Equity Investments:												
GIF/INVESCO Enhanced Index**	\$ 11,650,364	1.08%	below	-0.64%	NA							
S&P 500 (Benchmark)		1.72%	NA	NA	NA							

Summary of Investments

	2nd Quarter 2004			January - June 2004			Fiscal YTD*		
	Total	Return		Total	Return		Total	Return	
Fixed Income Investment		-1.92%			0.27%			-0.08%	
Enhanced Equity Investment**		1.08%			3.11%			18.34%	
Mutual Fund Investments		0.89%			7.21%			30.22%	
Total Fixed Income and Equity***	\$ 63,498,340	-0.35%			3.28%			13.02%	

* Annualized Returns

** Effective July 3, 2003 funds were moved from the JP Morgan Fleming Disciplined Equity Fund in to the INVESCO Enhanced Index Fund.

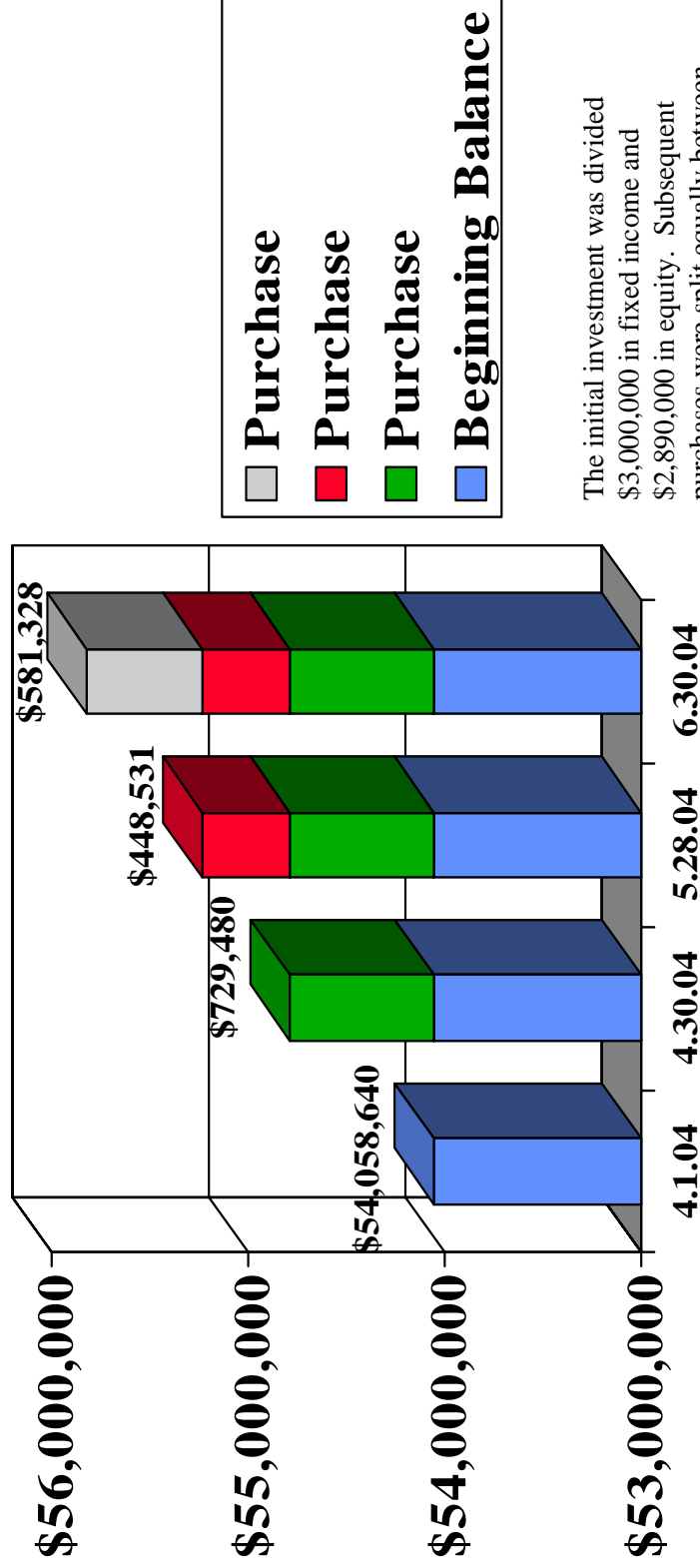
***The Fixed Income and Equity and Mutual Fund Composite total returns are approximate returns based on the weighted returns of each investment. The returns are weighted based on the market value at the beginning of each quarter for each investment. This return utilizes the quarterly return of each mutual fund and is an approximation of the Trust Fund's investment return and the monthly investments into each investment. Changes in mutual fund investments result in these returns being approximations, not the actual return of the of the Trust Fund's investment.

The market value of assets and total returns have been provided by the Atlanta Capital Management Company, Trusco Capital, INVESCO, Morningstar, and Wells Fargo, as custodian. Performance rates are gross of advisory and custodial fees. The equity investments are net of the respective mutual fund expenses.

G.I.F Services Investment Report to the Nevada Higher Education Tuition Trust Fund for the Quarter Ending June 30, 2004

Schedule of Investment Purchases

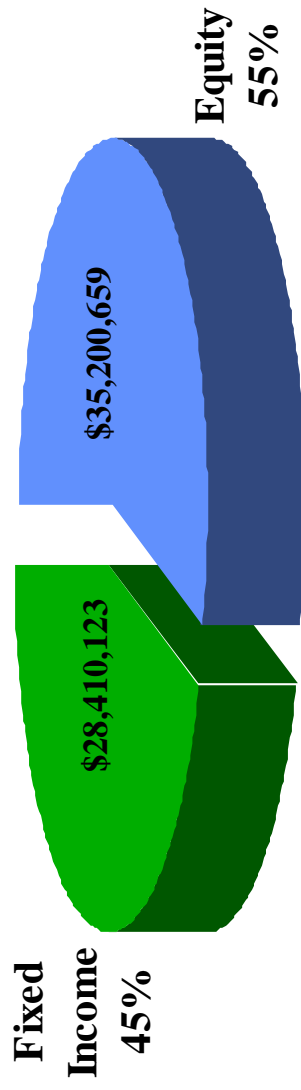
Total Principal Invested of \$55,817,978



**G.I.F Services
Investment Report to the
Nevada Higher Education Tuition Trust Fund
for the Quarter Ending June 30, 2004**

Asset Distribution

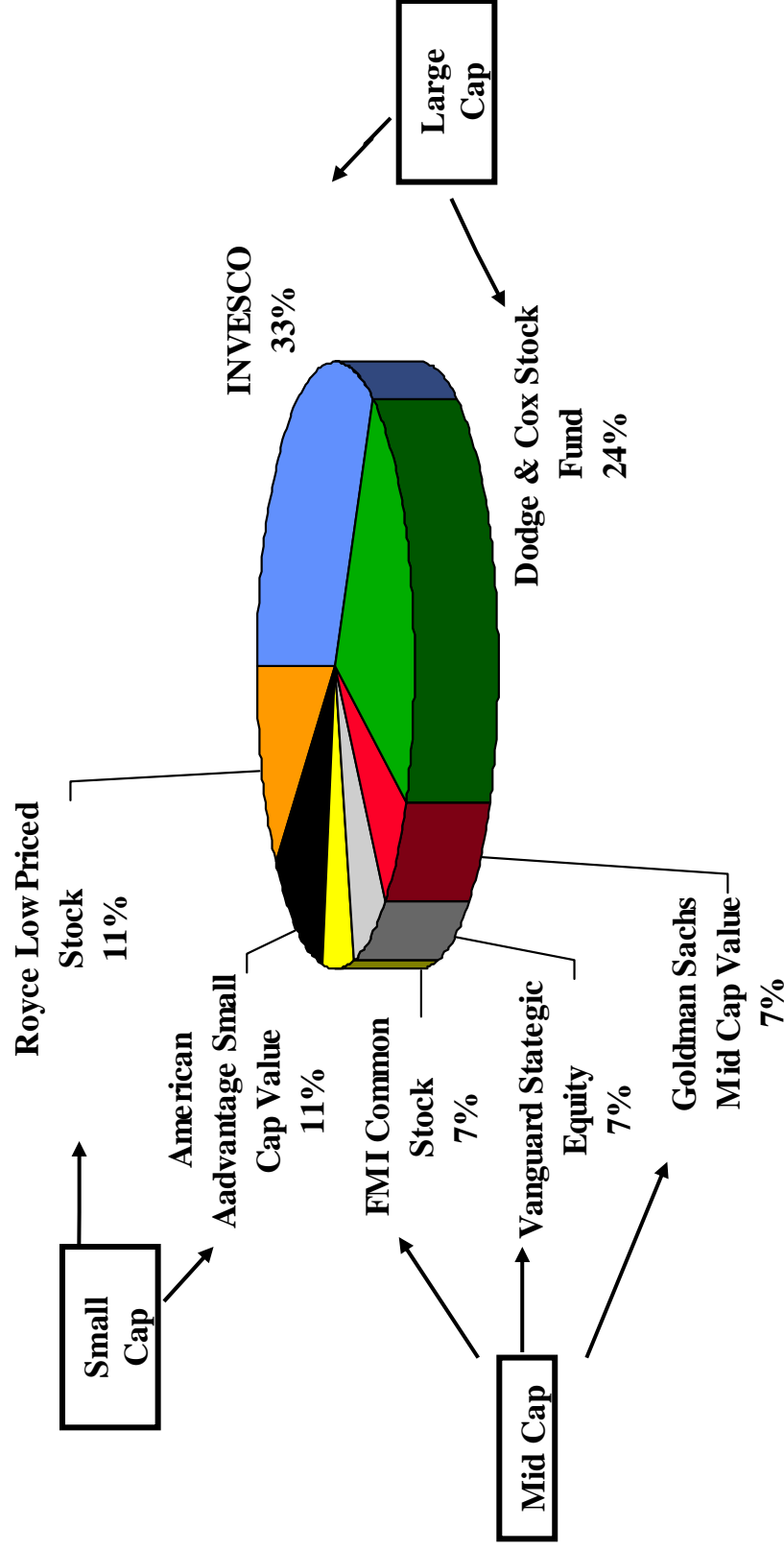
**Market Value as of
June 30, 2004**



On August 28, 2002, \$3,942,000 was transferred from the fixed income portfolio into equity investments to rebalance the investments.

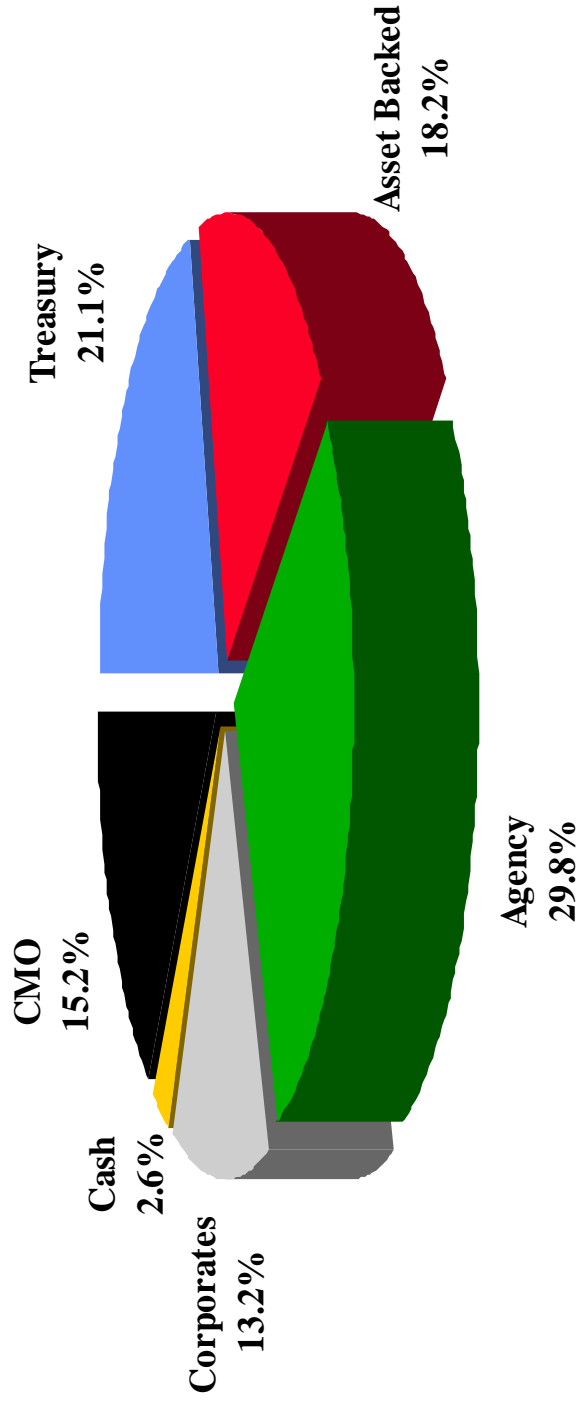
G.I.F Services
Investment Report to the
Nevada Higher Education Tuition Trust Fund
for the Quarter Ending June 30, 2004

Equity Investment Diversification
as of June 30, 2004



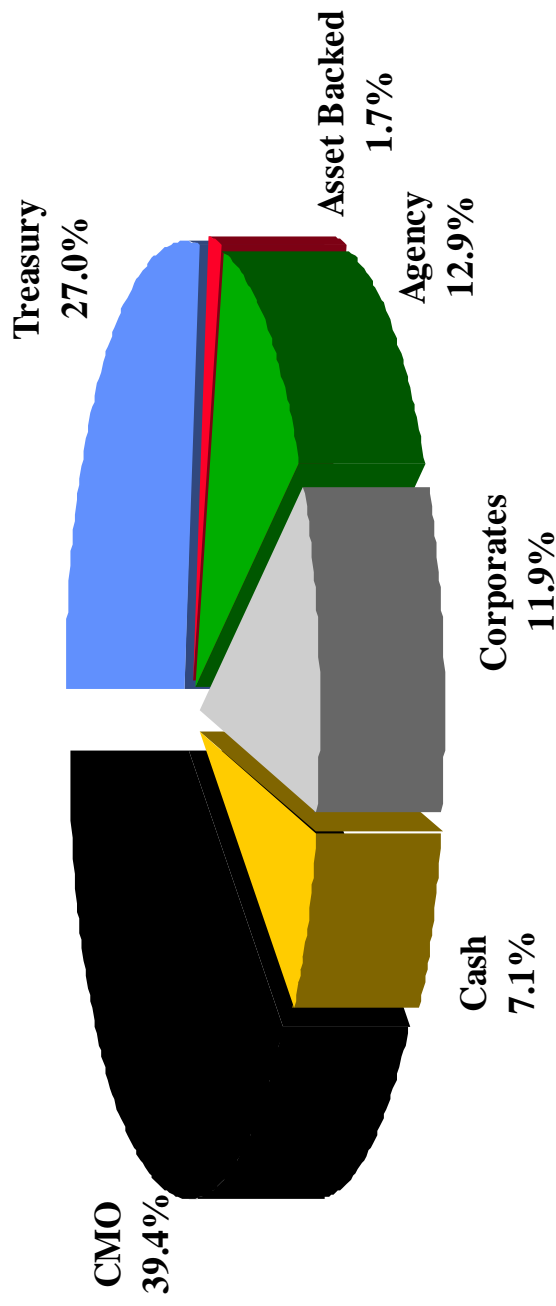
**G.I.F Services
Investment Report to the
Nevada Higher Education Tuition Trust Fund
for the Quarter Ending June 30, 2004**

**Atlanta Capital Management Co.
Portfolio Diversification**



**G.I.F Services
Investment Report to the
Nevada Higher Education Tuition Trust Fund
for the Quarter Ending June 30, 2004**

**Trusco Capital Management
Portfolio Diversification**



MARKETING OBJECTIVES AND STRATEGIES

The Board of Trustees of the College Savings Plans of Nevada continues to have concerns about the decrease in marketing and advertising funds put in place by the 2003 Legislature. The Legislature cut the marketing and advertising funds from \$370,000 per year to \$102,500 per year, which has had a significant material impact on the marketing efforts. While the Program continues to contract with The Rose/Glenn Group to promote the benefits of the Program, substantial changes were made to the marketing efforts.

To leverage the amount of marketing money available, Rose/Glenn suggested the best value would result from combining marketing and public relations efforts with the Upromise College Fund. This has been done on several occasions using a variety of formats, including direct mail pieces, targeting magazine placement using special education editions of notable publications such as *Newsweek* and *U.S. News & World Report*, and ADVO, which is the company behind the *Shopwise* brand and uses weekly mailers for targeted outreach.

In addition, in order to further decrease marketing costs, in FY04 the State Treasurer's office began moving enrollment and Program information to a web-based format. The office no longer prints enrollment brochures, instead making all of the information easily accessible online. On the rare occasion that an interested purchaser does not have internet access, staff prints the pertinent information from the website and mails the enrollment form and program description and disclaimers. This has resulted in a moderate annual cost savings, although severely limits the amount of information that can be distributed during outreach opportunities.

State Treasurer's office staff continues to do extensive outreach within the education community, distributing flyers and making presentations to schools, PTAs, and middle and high school counselor groups to promote the program and explain how it works in conjunction with the Millennium Scholarship Program and the Upromise College Fund 529 Plan, both administered by the State Treasurer.